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BEFORE THE ARIZONA CORPORATION
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COMMISSIONERS

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MIKE GLEASON, Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

**NOTICE OF FILING
SUPPLEMENTAL REBUTTAL
TESTIMONY IN RESPONSE TO
INTERVENOR DAYNE TAYLOR'S
DIRECT TESTIMONY**

ICR Water Users Association, Inc. files the Supplemental Rebuttal Testimony of Robert M. Busch and Thomas J. Bourassa in response to Intervenor Dayne Taylor's Direct Testimony. Mr. Busch's testimony is attached as Exhibit A, and Mr. Bourassa's testimony is attached as Exhibit B.

RESPECTFULLY submitted this 14th day of March, 2008.

SNELL & WILMER

Robert J. Metli
Marcie A. Shuman
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for ICR Water Users Association, Inc.

Arizona Corporation Commission
DOCKETED

MAR 14 2008

DOCKETED BY	NR
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Snell & Wilmer

LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

- 1 ORIGINAL AND THIRTEEN (13) copies
- 2 filed this 14th day of March, 2008, with:
- 3 Docket Control
- 4 ARIZONA CORPORATION COMMISSION
- 5 1200 West Washington
- 6 Phoenix, Arizona 85007
- 7
- 8 COPY of the foregoing hand-delivered
- 9 this 14th day of March, 2008, to:
- 10 Judge Marc E. Stern
- 11 ARIZONA CORPORATION COMMISSION
- 12 1200 West Washington
- 13 Phoenix, Arizona 85007
- 14
- 15 COPY of the foregoing mailed
- 16 this 14th day of March, 2008, to:
- 17 Mr. Dayne Taylor
- 18 13868 North Grey Bears Trail
- 19 Prescott, AZ 86305
- 20
- 21 *Margaret B. Schagratowa*
- 22
- 23
- 24
- 25
- 26
- 27
- 28

8626829.1

EXHIBIT A

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON, Chairman
4 JEFF HATCH-MILLER
5 WILLIAM A. MUNDELL
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION
9 OF ICR WATER USERS ASSOCIATION,
10 INC. FOR DETERMINATION OF THE
11 CURRENT FAIR VALUE OF ITS UTILITY
12 PLANT AND PROPERTY AND FOR
13 INCREASES IN ITS RATES AND
14 CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

15 SUPPLEMENTAL REBUTTAL TESTIMONY OF
16 ROBERT M. BUSCH
17 ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.
18 IN RESPONSE TO INTERVENOR DAYNE TAYLOR'S
19 DIRECT TESTIMONY

20 MARCH 14, 2008
21
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1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Robert M. Busch. I have been contracted by ICR Water Users
4 Association, Inc. ("ICR" or "Association") to be the Association's manager. My
5 business address is P.O. Box 5669, Chino Valley, AZ 86323.

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. Yes, I submitted Rebuttal Testimony on December 14, 2007. My Rebuttal
9 Testimony addressed issues raised by Arizona Corporation Commission
10 ("Commission") Staff's direct testimony in this matter.

11 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL**
12 **TESTIMONY?**

13 A. At the January 8, 2008 hearing, Administrative Law Judge Marc E. Stern granted
14 Mr. Dayne Taylor's intervention, reset the hearing, and issued a new procedural
15 schedule, which ordered Mr. Taylor to file direct testimony and ICR and
16 Commission Staff to file rebuttal testimony. My Supplemental Rebuttal Testimony
17 responds to Mr. Taylor's direct testimony as it relates to (1) the Association's
18 compliance with Decision No. 64360, (2) the Talking Rock Ranch ("TRR") water
19 system infrastructure, (3) the need for a rate increase, (4) water priority, and (5) the
20 contractual relationship between ICR, the TRR developer, and the TRR golf
21 course.

22 **Q. PLEASE PROVIDE AN OUTLINE OF YOUR TESTIMONY.**

23 A. I first provide background information regarding Decision No. 64360. I discuss
24 why the member-owned Association believed it was in compliance with Decision
25 64360 based upon its compliance filings. I then discuss the Well Agreement,
26 which was executed in 2003 by the Association, the TRR developer—Harvard
27 Investments ("Harvard"), and the TRR golf course. Specifically, I discuss how the
28 Well Agreement establishes the identity and timeframe of the wells to be

transferred to ICR and the charges to be paid by the TRR golf course for the water delivered to the golf course by ICR. Given that Harvard and the TRR golf course are not customers of ICR, I explain that the Well Agreement, not the Association's tariff, governs the relationship between ICR, Harvard, and the TRR golf course. I explain why even though Mr. Taylor asserts that the TRR water system is oversized, that fact has no bearing on the Association's need for a rate increase. Finally I explain how ICR's residential water customers have priority over the golf course and construction water demand.

II. COMPLIANCE WITH DECISION NO. 64360.

A. SUMMARY OF COMPLIANCE.

Q. PLEASE SUMMARIZE DOCKET NO. W-02824A-01-0450 AND ITS RESULTING DECISION, DECISION NO. 64360.

A. In 2001, ICR filed for approval to extend its certificate of convenience and necessity ("CC&N") to serve the subdivision known as Talking Rock Ranch or TRR. The Commission approved the extension in Decision 64360 with certain conditions. Decision 64360 required Harvard to convey two wells to ICR to ensure that the Association had adequate water for its customers and control over its own water supply. ICR was required to file a copy of the relevant documents transferring the ownership of the wells within 365 days of the Decision date. The Commission also required ICR to file copies of Harvard's Arizona Department of Water Resources Water Adequacy Report for Phase I of TRR, Harvard's Certificate of Approval to Construct with the appropriate Main Extension Agreement, and ICR's Yavapai County franchise within 365 days of the Decision date. The Decision also contained the standard language that required the Association to charge its existing rates and charges to its customers in the extension area.

1 **Q. DID ICR COMPLY WITH DECISION 64360?**

2 A. ICR believed that it was in compliance with Decision 64360. The required copies
3 of the Water Adequacy Report, Approval to Construct, and franchise were filed
4 within 365 days of the Decision date. The Association requested—and the
5 Commission granted—a short extension of the deadline to file the relevant
6 documents relating to the transfer of the wells to ICR and an amendment to the
7 Main Extension Agreement. Before the extension deadline, the Association
8 docketed with the Commission the Well Agreement and First Amendment to the
9 Main Extension Agreement, both dated February 25, 2003. *See* Docket No. W-
10 02824A-01-0450. Both agreements set forth which wells were to be transferred to
11 ICR and the timeframe for such transfer. The Well Agreement also set forth the
12 relationship between ICR, Harvard, and the TRR golf course. In particular, the
13 Well Agreement specified that the TRR golf course would be charged a wheeling
14 charge for the water delivered to the golf course from all three wells in the TRR
15 well field as well as its share of the operating and maintenance (“O&M”) expenses
16 associated with the TRR water system. The Commission Staff approved ICR’s
17 Main Extension Agreement and First Amendment to the Main Extension
18 Agreement on September 26, 2003. *See* Supplemental Rebuttal Exhibit 1 attached.
19 The Commission did not file any comments or objections to the Well Agreement.
20 Given that (1) the Association docketed the Well Agreement and First Amendment
21 to the Main Extension Agreement with the Commission and (2) Commission Staff
22 approved the Main Extension Agreement and First Amendment to the Main
23 Extension Agreement, ICR reasonably believed that it had fully complied with
24 Decision 64360.

25 **B. SUMMARY OF THE WELL AGREEMENT PROVISIONS WHICH**
26 **ARE RELEVANT TO THIS PROCEEDING.**

27 **Q. PLEASE DESCRIBE THE WELL AGREEMENT.**

28

1 A. As stated above, the Commission required Harvard to convey two of its wells to
2 ICR in Decision 64360. To meet that condition, ICR, Harvard, and the TRR golf
3 course entered into negotiations to mutually determine which wells were to be
4 transferred to the Association and the timeframe for such transfer. The parties'
5 negotiations resulted in the Well Agreement, which was executed on February 25,
6 2003 and docketed with the Commission, as a compliance item to Decision 64360,
7 on March 7, 2003. *See* Well Agreement, attached to T. Bourassa Supplemental
8 Rebuttal Testimony, dated March 14, 2008 ("Bourassa Suppl. Rebuttal T."), at
9 Supplemental Rebuttal Exhibit 1.

10 **Q. PER THE WELL AGREEMENT, WHICH WELLS WERE TO BE**
11 **TRANSFERRED TO THE ASSOCIATION AND WHEN?**

12 A. There are three wells in the TRR well field identified as Production Wells Nos. 1,
13 2, and 3. Under the Well Agreement, Harvard agreed to transfer Production Well
14 No. 3 to ICR upon the Commission's approval of the Main Extension Agreement
15 and First Amendment to the Main Extension Agreement. Commission Staff
16 approved the Main Extension and First Amendment to the Main Extension
17 Agreement on September 26, 2003. Harvard executed a bill of sale transferring the
18 ownership of Production Well No. 3 to ICR and recorded it with Yavapai County
19 on October 28, 2003.

20 Under the Well Agreement, Harvard transferred Production Wells No. 1 and
21 2 immediately to the TRR golf course. These two wells are also referred to as the
22 golf course wells. Based upon the Association's need for domestic water, the Well
23 Agreement and the First Amendment to the Main Extension Agreement set forth
24 that the TRR golf course would transfer Production Well No. 2 to ICR upon ICR
25 serving its 800th connection. The Well Agreement allows ICR to withdraw up to
26 554 acre-feet of water from its well(s) annually. As a practical matter, the water
27 may come from any of the three wells. The Commission approved the First
28 Amendment to the Main Extension Agreement and did not object to the Well

1 Agreement. Given these facts, the member-owned Association was under the
2 belief that it was in compliance with Decision 64360.

3 **Q. DOES PRODUCTION WELL NO. 3 PROVIDE AN ADEQUATE WATER**
4 **SUPPLY TO ICR'S CUSTOMERS RESIDING IN TRR TODAY?**

5 A. Yes. ICR's well produces enough water to serve the domestic demand in the TRR
6 subdivision today and for some time in the future. In 2006, only 16 percent of the
7 water pumped from ICR's well was delivered to its customers. In addition, there is
8 a 300,000 gallon storage tank in the TRR water system, which stores water to be
9 delivered either the Association's customers or the golf course.

10 **Q. HAS THERE BEEN ANY WATER SHORTAGES IN TRR TO DATE?**

11 A. No.

12 **Q. PLEASE EXPLAIN THE WHEELING CHARGE AND THE O&M**
13 **EXPENSES THAT HARVARD AND THE TRR GOLF COURSE ARE**
14 **RESPONSIBLE TO PAY FOR UNDER THE WELL AGREEMENT.**

15 A. Under the Well Agreement, the wheeling charge is a fee for every acre-foot of
16 water that is delivered from all three wells in the TRR well field, regardless of
17 ownership, to the golf course. Based upon the percentage of water pumped from
18 the ICR well (Production Well No. 3) that is delivered to the golf course, the golf
19 course pays that same percentage of O&M expenses attributable to the TRR water
20 system. For example, in 2006 the golf course received approximately 84 percent of
21 the water pumped from the ICR well. The golf course, in turn, owed 84 percent of
22 the O&M expenses of the TRR water system. In paying its share of expenses, the
23 golf course sends monthly payments to ICR and also makes one final true-up
24 payment after the end of the year. In 2006, the golf course also paid 100 percent of
25 the electric power costs from all three wells and two pump stations, which are
26 separate from the O&M expenses it pays. Although the golf course paid for all
27 power costs in 2006, this might not continue since some of these costs are
28 attributable to ICR residential customers.

1 Q. SHOULD HARVARD AND THE TRR GOLF COURSE BE CHARGED
2 THE TARIFF RATES INSTEAD OF THE CHARGES SPECIFIED IN THE
3 WELL AGREEMENT?

4 A. No. Harvard and the TRR golf course are not customers of ICR, so ICR's tariff
5 rates do not apply. The Well Agreement, instead, governs the relationship between
6 ICR, Harvard, and the golf course. Pursuant to the Well Agreement, in exchange
7 for the transfer of the wells and other infrastructure built and financed by Harvard,
8 ICR agreed to deliver water from the wells currently owned by the golf course
9 (Production Wells Nos. 1 and 2) and the unused production capacity of the ICR
10 well (Production Well No. 3) to the golf course. This arrangement is no different
11 than a typical well sharing agreement, which in my general understanding, the
12 Commission does not need to approve.

13 Q. WAS IT REASONABLE FOR ICR TO ENTER INTO THE WELL
14 AGREEMENT WITH HARVARD AND TRR GOLF?

15 A. Yes. Under the terms of the Well Agreement, Harvard agreed to transfer
16 Production Well No. 3 to ICR at no upfront cost to ICR. The TRR golf course also
17 will be transferring Production Well No. 2 to ICR at no upfront cost to ICR. In
18 exchange for these wells, the parties agreed that ICR would deliver the water from
19 the wells currently owned by the golf course (Production Well Nos. 1 and 2) and
20 the unused production capacity from the ICR well (Production Well No. 3) to the
21 golf course. The golf course would then be charged a wheeling charge and its pro
22 rata share of the O&M expenses attributable to the TRR water system. Harvard
23 and the TRR golf course also agreed to have a secondary right to the Association's
24 domestic customers during emergencies. The golf course also agreed to pay for the
25 pumping power costs for the three wells in the TRR well field, despite some of
26 these costs being attributable to ICR's residential customers. In light of these
27 promises and exchanges, it was reasonable for ICR to enter into this valid Well
28 Agreement.

1 **Q. DOES ICR TREAT THE GOLF COURSE AS A CUSTOMER?**

2 A. No. There are a variety of differences between the TRR golf course and ICR's
3 customers. ICR and the TRR golf course have entered into the Well Agreement.
4 ICR does not have any well sharing agreements with its residential customers. The
5 Well Agreement sets forth the relationship between the golf course and ICR,
6 including charges and reimbursements.

7 In addition, ICR sends out different invoices to the TRR golf course, namely
8 invoices relating to O&M expenses. Although ICR bills the golf course monthly
9 for wheeling charges, which the golf course pays on a monthly basis, the golf
10 course also sends an additional monthly payment to ICR for its monthly pro rata
11 share of the O&M expenses. At the end of the year, ICR sends an invoice to the
12 golf course to true-up the O&M expenses owed for the year.

13 Another difference is that the golf course pays for the pumping power costs
14 for the three wells in the TRR well field, the TRR pumping station, and the Double
15 Adobe pumping station. ICR's residential customers do not pay for power costs.

16 **Q. WOULD ICR HAVE CONCERNS IF THE COMMISSION DECIDES TO**
17 **TREAT THE TRR GOLF COURSE AS A CUSTOMER, REQUIRING THE**
18 **PAYMENT OF TARIFF RATES FOR WATER?**

19 A. Yes. ICR would have several concerns with such an outcome. If the Commission
20 treats the golf course as a customer of ICR, then it would require the golf course to
21 pay the tariff rates and impute fictitious revenue from the golf course to the Test
22 Year. This would be disastrous for the Association and its members, including Mr.
23 Taylor. It is my understanding that there is no legal obligation on the part of the
24 golf course to pay such rates. So even if such revenue is imputed, ICR will not be
25 receiving this revenue. Given the Association's need for a rate increase, these
26 actions could result in the Association going bankrupt. In addition, this action
27 could lead to a breach of the Well Agreement and legal action against ICR by
28 Harvard and the TRR golf course for attempting to charge tariff rates.

1 If Commission Staff proposes to impute fictitious revenue from the golf
2 course in the Test Year, an assumption has been made that Harvard and the TRR
3 golf course would be willing to pay tariff rates going forward. ICR is sure that
4 would not be the case. ICR believes Harvard and the TRR golf course would
5 exercise other options, some of which are discussed below. Imputing revenue also
6 results in other customer rates being reduced. With a decrease in revenue, the
7 Association would not remain viable.

8 By attempting to void the Well Agreement, the following could result:

9 (1) The golf course may decrease or eliminate its use of water from the ICR
10 well and look for another water source. Under the Well Agreement, this would
11 result in a depletion of the golf course's reimbursement to ICR for O&M expenses
12 and payment for wheeled water. Any diminished reimbursement means that these
13 expenses would be passed on to customers, but customer rates going forward
14 would recover little, if any, of those additional costs. The loss of reimbursement
15 also would further deteriorate ICR's financial position. Under the tariff rates, ICR
16 would not receive any revenue from the golf course and customer rates would be
17 grossly understated. For example, ICR accounting witness Thomas Bourassa
18 testifies that if ICR receives no revenue from the golf course, then customer rates
19 would be increased approximately 70 percent. *See* Bourassa Suppl. Rebuttal T. at
20 29-30, Proforma Schedule A-1.

21 (2) If ICR were to charge the golf course residential tariff rates in addition to
22 expenses the golf course is responsible for under the Well Agreement, the
23 Association may be subjected to a protracted legal battle with Harvard and the golf
24 course over the validity of the Well Agreement and/or the golf course's
25 unwillingness to pay the ICR tariff rates. ICR would incur significant legal costs in
26 this scenario, which it cannot afford.

1 **IV. TRR WATER SYSTEM INFRASTRUCTURE.**

2 **Q. WOULD YOU LIKE TO RESPOND TO INTERVENOR TAYLOR'S**
3 **ASSERTION THAT THE ASSOCIATION'S INFRASTRUCTURE TO**
4 **SERVE TRR IS OVERSIZED?**

5 A. Yes. His assertion is misleading and has no bearing on the present rate case. Mr.
6 Taylor cannot just look at the water system infrastructure as being designed solely
7 for domestic use. It was not. The system was designed to deliver water to
8 residential customers, the golf course, and for fire protection. Throughout the TRR
9 water system, several 10 inch lines were installed to accommodate the amount of
10 water required for fire hydrants in the event of a fire emergency. There is one 12
11 inch transmission line from the TRR well field to the TRR pump station.
12 Assuming that a 12 inch line, instead of a 10 inch line, was required because of the
13 golf course, Mr. Bourassa has testified that the affect of any over sizing of this line
14 on rates is negligible. See Bourassa Suppl. Rebuttal T. at 20. Furthermore, the
15 Commission approved the construction of the current water system when it
16 approved the Main Extension Agreement and First Amendment of the Main
17 Extension Agreement and extended the Association's CC&N to serve customers
18 living in TRR.

19 **V. RATE INCREASE.**

20 **Q. IS A RATE INCREASE NECESSARY AT THIS TIME?**

21 A. Yes. The Commission has not increased rates for ICR since the rates were first set
22 in 1995. As the manager of the member-owned Association, I know first hand that
23 the current rates no longer provide a sufficient operating margin to keep the
24 Association viable for the long term. Mr. Bourassa previously provided detailed
25 testimony regarding the necessary operating margin and revenue requirement the
26 Association requires to remain viable, and I defer to him for the specifics. I note
27 also that the current rate structure is not tiered to promote water conservation,
28 which I know is important to the Commission.

1 **VI. WATER PRIORITY.**

2 **Q. PLEASE RESPOND TO INTERVENOR TAYLOR'S ASSERTION THAT**
3 **THE ASSOCIATION'S RESIDENTIAL CUSTOMERS DO NOT HAVE**
4 **PRIORITY OF THE WATER FROM THE TRR WELLS.**

5 A. Mr. Taylor is incorrect. Paragraphs 14(j) and 15(f) of the Well Agreement specify
6 that the Association's residential customers have priority over the golf course and
7 construction water demand in times of emergency. Because of this priority, the
8 Association's residential customers have the security of having an available water
9 supply during emergencies.

10 Last summer, the golf course also installed a sensor at the golf course meter.
11 The sensor closes off the delivery line to the golf course if there is a loss of
12 pressure in the TRR water system. This ensures that the ICR would have enough
13 water for fire and customer needs.

14 **Q. IS THE DOMESTIC WATER PRIORITY ONLY FOR WATER PUMPED**
15 **FROM THE ASSOCIATION'S WELL OR ALL THREE PRODUCTION**
16 **WELLS IN THE TRR WELL FIELD?**

17 A. The water priority applies to all three production wells in the TRR well field.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.

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SUPPLEMENTAL REBUTTAL

EXHIBIT 1

COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON



Brian C. McNeal
Executive Secretary

ARIZONA CORPORATION COMMISSION

SEP 26 2003

September 24, 2003

Mr. Michael T. Hallam
Lewis and Roca LLP
40 North Central Avenue
Phoenix, Arizona 85004-4429

Dear Mr. Hallam:

The enclosed Main Extension Agreement between ICR Water Company and Harvard Simon I, LLC, has met the provisions of A.A.C. R14-2-406, or company approved tariffs, and is approved, excepting those provisions, if any, not within the jurisdiction of the Arizona Corporation Commission.

A copy of this agreement will remain on file in the Utilities Division's Central Files.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Fisher", written over a large, stylized, handwritten "J" or "F" that spans across the signature line and extends downwards into the typed name area.

Jim Fisher
Executive Consultant
Utilities Division

JEF:hml

Enclosures

cc: Brian Bozzo

FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT

25th THIS FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT is made this day of February, 2003, by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Company"), and HARVARD SIMON I, L.L.C., an Arizona corporation ("Developer"), for the purposes and consideration hereinafter set forth.

RECITALS

A. Company and Developer previously entered into that certain Main Extension Agreement, dated March 5, 2001 ("the Agreement"), pertaining to the extension of water utility service to 3470 acres of real property generally situated in Yavapai County, Arizona ("the Property").

B. Subsequent to execution of the Agreement, on January 15, 2002 the Arizona Corporation Commission ("Commission") issued Decision No. 64360 extending Company's CC&N conditioned upon Developer transferring ownership of certain wells and related water production facilities to the Company.

C. Based on the Commission's Order, the parties desire to amend and modify certain provisions of the Agreement, as set forth below.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, Company and Developer hereby agree to amend the Agreement, as follows:

1. Amendment to Agreement.

(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First

Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

(e) Agreement Submission. Paragraph 13(a) of the Agreement is amended to provide that the Company shall be responsible for promptly seeking Commission approval of this First Amendment.

2. Inconsistencies; Governing Agreement. With regard to Production Well 3 and Production Well 2, in the event of any inconsistencies between the terms and provisions of the Well Agreement and the terms and provisions of the Agreement, the terms and provisions of the Well Agreement shall govern and prevail.

3. Effect on the Agreement. Except as otherwise expressly provided herein, all terms, covenants and conditions of the Agreement shall remain in full force and effect and be binding upon the parties.

IN WITNESS WHEREOF, ICR WATER USERS ASSOCIATION and HARVARD SIMON I, L.L.C., have caused this First Amendment to Main Extension Agreement to be executed on their behalf by their duly authorized representatives as of the day and year first above written.

ICR WATER USERS ASSOCIATION

Date Approved: September 11, 2003

Decision No.: _____

Director of Utilities
Arizona Corporation Commission

By: _____

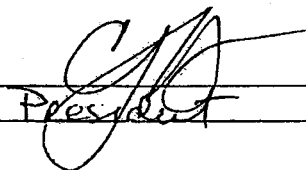
By: _____

Joe Swayze McCrae, President

HARVARD SIMON I, L.L.C., an Arizona limited liability company,

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By 
Its President

PHX/MGALLOGL/1257894.3/47094.005

UPPLEMENT TO EXHIBIT "C"

TALKING ROCK RANCH, Wells and Well Site				
Yavapai County, Arizona				
ENGINEER'S OPINION OF PROBABLE CONSTRUCTION COST				
Prepared by: Shephard-Wesnitzer, Inc.		For: Harvard Investments		
Item Description	Quantity	Unit	Unit Price	Total
Wells and Well Site				
Well Drilling (3 Wells)	1	ls.	\$200,000.00	\$200,000
Electrical and Controls	1	ls.	\$75,000.00	\$75,000
Well Manifold	3	ea.	\$12,000.00	\$36,000
Site Work and Site Piping	1	ls.	\$60,000.00	\$60,000
Chlorination Equipment	1	ls.	\$18,000.00	\$18,000
Chlorination Conduit	1	ls.	\$3,000.00	\$3,000
Buildings	1	ls.	\$25,000.00	\$25,000
MISCELLANEOUS				
Testing	1	ls.	\$5,000.00	\$5,000
Commission	1	ea.	\$5,700.00	\$5,700
TOTALS				\$427,700



MAIN EXTENSION AGREEMENT

(WATER SERVICE)

THIS AGREEMENT is made this 5 day of MARCH 2001 by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility") and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer"), for the purposes and considerations hereinafter set forth.

RECITALS

A. Developer is the Second Beneficiary under the First American Title Insurance Agency of Yavapai, Inc. Trust No. 4750, which trust owns approximately 3470 acres of real property generally situated in Yavapai County, Arizona, more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"). Developer is authorized to obtain water and wastewater utility services for the Property. A portion of the Property, approximately 400 acres, is currently located within the Utility's Certificate of Convenience and Necessity ("CC&N") as shown in the map attached hereto as Exhibit "B" and incorporated herein by this reference. The remainder of the Property, approximately 3070 acres (the "Extension Area"), is adjacent to utility's CC&N as shown in Exhibit "B," but is not located in the certificated service area of the Utility or of any other certificated water utility provider or in the service area of any municipal water utility service provider. The majority of the Property, approximately 2,500 acres, is located in an area eligible for membership in the Utility pursuant to the Utility's By-Laws.

B. Utility is a public service corporation as defined in Article XV, Section 2 of the Arizona Constitution and, as such, is regulated by the Arizona Corporation Commission ("Commission"). Utility has been granted a CC&N by the Commission authorizing Utility to

provide water utility services. Utility is willing to promptly seek approval of the Commission to extend its CC&N to include the Extension Area and to take all other action and obtain other government approvals as necessary in connection with the extension of Utility's CC&N to include the Extension Area. Thereafter, Utility is willing to extend water utility service to the Property in accordance with the terms and conditions set forth in this Agreement and in accordance with relevant law, including the rules and regulations of the Commission.

C. Developer has requested that water utility service be extended and provided to the Property by Utility in furtherance of Developer's planned development of the Property. Developer intends to develop on the property a residential subdivision to be known as Talking Rock Ranch that will contain approximately 1500 residential dwellings, certain common areas and a ranch compound with a clubhouse, swimming pool, tennis courts and a health and fitness center. Developer is willing to construct and install distribution mains, valves, fittings, storage facilities and other water utility facilities both on-site and off-site (the "Facilities") necessary for Utility to furnish water service to each lot, building or other customer within the Property and, following construction, to convey title to the Facilities to Utility. All amounts paid by Developer hereunder will be treated as an advance in aid of construction according to the terms and conditions set forth hereinafter.

D. Developer also intends to construct an 18-hole golf course at the Property, with a driving range, other practice facilities, storage lakes and related amenities and facilities (the "Golf Course"). Developer will supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENTS

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the

Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action"). Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership; As-Built Plans; Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that

all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use

reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way; Easements; Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility, easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In

no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

10. Notice. All notices and other written communications required hereunder shall be sent to the parties as follows:

Swayze McCraine
ICR Water Users Association
P. O. Box 4413
Prescott, Arizona 86302

Doug Zuber
Harvard Simon I, L.L.C.
c/o Harvard Investment, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Each party shall advise the other party in writing of any change in the manner in which notice is to be provided hereunder.

11. Risk of Loss: Indemnification. Until Utility has issued its written notice of acceptance of the Facilities constructed hereunder, all risk of loss with respect to the Facilities shall remain with Developer. Developer shall indemnify and hold Utility and its officers, directors, employees and agents harmless for, from and against all claims or other liability, whether actually asserted or threatened, arising out of or related to Developer's construction of the Facilities hereunder. Developer's obligations under this paragraph shall not extend to any claims or liability arising out of Utility's ownership and operation of the Facilities following their acceptance.

12. Utility's Obligation to Serve.

(a) Developer's Failure to Perform. Utility shall have no obligation to accept and operate the Facilities to be constructed hereunder in the event Developer fails to make

any payment provided in this Agreement, fails to complete the construction and installation of the Facilities in accordance with their plans and specifications or otherwise fails to comply with any of the terms and conditions of this Agreement in any material respect.

(b) Fire Protection Services. Utility agrees to provide water for fire protection to the Property in accordance with the requirements of Yavapai County and any private fire and emergency service providers. It is understood and agreed that the Facilities have been designed to allow the delivery of water for fire protection purposes to the Property. The foregoing notwithstanding, the Utility will supply only such water at such pressures as may be available as a result of the normal operation of its system, and the Utility shall not be liable for injuries or damage resulting from causes beyond the Utility's control.

(c) Water Supply to Golf Course. Utility acknowledges that Developer intends to construct the Golf Course. Utility further acknowledges that Developer intends to supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes and hereby provides its unconditional consent for Developer to supply water to the Golf Course for such purposes. Utility further agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of Developer's written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs. Developer may also request, in writing, that such provision of water utility service by Utility for landscape irrigation, the filling of lakes and other non-potable services be on a temporary basis and Utility provides its unconditional consent for Developer to suspend or terminate such service within its sole discretion.

13. Contingencies.

(a) Commission Approval. Because a substantial portion of the Property (i.e., the Extension Area) lies outside Utility's CC&N, this Agreement is contingent upon approval by the Commission to extend the CC&N to include the Extension Area. Utility shall be responsible for promptly seeking Commission approval to extend its CC&N to include the Extension Area as well as for seeking approval of this Agreement. The parties shall cooperate with and assist each other in connection with obtaining such approval. If the Commission refuses to approve the extension of Utility's CC&N to include the Extension Agreement, then this Agreement shall be cancelable by any of the parties hereto upon written notice to the other parties, and no party hereto shall thereafter assert any right or be subject to any obligation imposed hereunder, except for payment by Developer of Administrative Costs reasonably incurred by Utility.

(b) Franchise Agreement. Utility further agrees to promptly seek approval from Yavapai County to extend Utility's Franchise Agreement with the County to include the Extension Area and/or any other portion of the Property not presently located within the Utility's Franchise area.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's

advances in aid of construction. Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

16. Alternative Dispute Resolution. The parties hereto agree that each will use good faith efforts to resolve, through negotiation, disputes arising hereunder without resorting to mediation, arbitration or litigation. However, to the extent that a dispute arises which cannot be resolved through negotiation, and the dispute does not fall within the jurisdiction of the Commission, the parties agree to the following dispute resolution mechanism:

(a) Mediation. The parties shall first attempt, in good faith, to resolve the dispute through mediation administered by the American Arbitration Association under its Commercial Mediation Rules.

(b) Arbitration. If the dispute cannot be resolved through mediation, the matter shall be submitted to binding arbitration in accordance with the rules of commercial arbitration ("Rules") then followed by the American Arbitration Association ("AAA"), Phoenix, Arizona. If the claim in dispute does not exceed \$20,000, then there shall be a single arbitrator selected by mutual agreement of the parties, and in the absence of agreement, appointed according to the Rules. If the claim in dispute exceeds \$20,000, the arbitration panel shall consist of three (3) members, one of whom shall be selected by Developer, one of whom shall be selected by Utility, and the third, who shall serve as chairman, whom shall be selected by the AAA. The arbitrator or arbitrators must be knowledgeable in the subject matter of the dispute. The costs and fees of the arbitrator(s) shall be divided equally between the parties. Any decision of the arbitrator(s) shall be supported by written findings of fact and conclusions of law, and shall be based upon sound engineering practice. The decision of the arbitrator(s) shall be final, subject to the exceptions outlined in the Arizona Uniform Arbitration Act, A.R.S. Section 12-

1502, et seq., and judgment may be entered upon the same; provided, however, that any decision of the arbitrator(s) may be appealed to the Superior Court of Maricopa County if it is based on an erroneous interpretation, application or disregard of the law applicable to the dispute. The arbitrator(s) shall control discovery in the proceedings and shall award the prevailing party its reasonable attorneys' fees and costs.

17. Commission Rules and Regulations. This Agreement, and all rights and obligations hereunder, shall be subject to the Commission's rules and regulations regarding the operation of water utility companies and all applicable rates, fees, charges, and tariffs of Utility as approved by the Commission or as may be modified in the future.

18. Attorneys' Fees. The prevailing party in any litigation or other proceeding concerning or related to this Agreement, or the enforcement of thereof, shall be entitled to recover its costs and reasonable attorneys' fees.


19. Time of the Essence. Time is of the essence of every provision hereof.

20. Miscellaneous. This Agreement shall be governed by the laws of the State of Arizona. This Agreement, and each and every term and condition contained herein, shall be binding upon and inure to the benefit of the successors and assigns of Utility and Developer. This Agreement sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them, except as otherwise expressly provided herein. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon either party unless in writing and signed by both parties. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall,

to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. The headings in this Agreement are inserted for convenience only, and shall not constitute a part of this Agreement or be used to construe or interpret any of its provisions. The parties have participated jointly in the negotiation and drafting of this Agreement. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, an
Arizona public service corporation

By: 
Its PRESIDENT

"Utility"

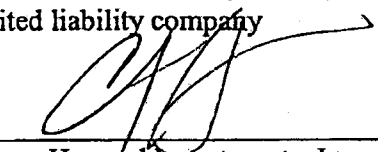
Date Approved: September 19, 2003

Decision No.: _____

Director of Utilities
Arizona Corporation Commission

By: 

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: 
Harvard Investments, Inc., an
Arizona corporation
Its Operating Member

"Developer"

EXHIBIT "B"

PARCEL I:

All of Sections 15 and 16, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

PARCEL II:

The Northeast quarter of Section 17, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian lying Northeasterly of Prescott-Simmons Road as it existed on June 10, 1920.

EXCEPT all that portion of Section 17, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the point of intersection of the Easterly right of way of the Simmons Road and the North line of said Section 17 being the TRUE POINT OF BEGINNING,

Thence South 89 degrees, 54 minutes East, along the North line of said Section 17, a distance of 514.55 feet,

Thence South 34 degrees, 33 minutes East, parallel with the said Simmons Road, 514.55 feet,

Thence North 89 degrees, 54 minutes West, 514.55 feet to a point on the said Easterly right of way of the Simmons Road,

Thence North 34 degrees, 33 minutes West, 514.55 feet along the said Easterly right of way of the Simmons Road to the TRUE POINT OF BEGINNING as conveyed in Warranty Deed recorded November 13, 1996 in Book 3310 of Official Records, Page 854.

PARCEL III:

All of Sections 21 and 22, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian.

EXCEPT THEREFROM all coal, oil, gas and other mineral deposits as reserved in the Patent recorded in Book 25 of Official Records, Page 106.

(Affects Section 22, Township 16 North, Range 3 West)

Continued

EXHIBIT "B"

EXCEPT for that portion lying within the following described
Parcels:

PARCEL A:

Section 21 and Section 22 of Township 16 North, Range 3 West of the
Gila and Salt River Base and Meridian, County of Yavapai, State of
Arizona, described as follows:

BEGINNING at the intersection of the South line of said Section 22
and the Westerly sideline of Williamson Valley Road, 100-foot wide
(also known as Prescott-Simmons Highway);

Thence along said Westerly line, North 30 degrees, 31 minutes, 54
seconds West, 945.97 feet;

Thence parallel with the Southerly line of said Section 22, North
88 degrees, 54 minutes, 05 seconds West, 2,215.12 feet to the East
line of said Section 21;

Thence parallel with the Southerly line of said Section 21, South
86 degrees, 23 minutes, 15 seconds West, 2,826.98 feet;

Thence continuing along said parallel line, South 88 degrees, 48
minutes, 30 seconds West, 1,170.00 feet;

Thence South 03 degrees, 42 minutes, 29 seconds East, 805.67 feet
to the South line of said Section 21;

Thence along said Section line, North 88 degrees, 48 minutes, 30
seconds East, 1,111.53 feet to the Southerly quarter corner of said
Section, said corner is monumented with a 3-inch diameter brass
disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence continuing along said South line, North 86 degrees, 23
minutes, 15 seconds East, 2,804.18 feet to the Southeast corner of
said Section 21; said corner is monumented with a 3-inch diameter
brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence along the Southerly line of said Section 22, South 88
degrees, 54 minutes, 05 seconds East, 2,684.88 feet to the POINT OF
BEGINNING.

PARCEL B:

Any portion lying South of the Northerly right of way line of Nancy
Drive as recorded in Book 15 of Maps, Page 63, and East of the
Easterly right of way of Williamson Valley Road.

Continued

EXHIBIT "B"

PARCEL IV:

The North half of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian

EXCEPT for the following described Parcel:

That portion of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona described as follows:

BEGINNING at the Northeast corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ Cheek PE 2398";

Thence along the North line of said Section 28, South 86 degrees, 23 minutes, 15 seconds West, 2,804.18 feet to the North quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ Cheek PE 2398";

Thence continuing along said North line of Section 28, South 88 degrees, 48 minutes, 30 seconds West, 1,151.53 feet to a line parallel with the East line of said Section 28;

Thence along said parallel line, South 03 degrees, 42 minutes, 29 seconds East, 2,614.40 feet to the mid-section line of said Section 28;

Thence along said mid-section line, North 88 degrees, 26 minutes, 14 seconds East, 3,957.37 feet to the East quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ Cheek PE 2398";

Thence along the East line of said Section 28, North 03 degrees, 42 minutes, 29 seconds West, 2,707.30 feet to the POINT OF BEGINNING.

PARCEL V:

Section 33 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, lying Northerly and Northwesterly of the following described line:

BEGINNING on the West line of said Section, North 0 degrees, 12 minutes, 47 seconds West, 1,992.80 feet from the Southwest corner of said Section, said corner is monumented with a General Land Office survey monument;

Thence North 89 degrees, 47 minutes, 13 seconds East, 1,051.14 feet to an existing 4 strand barbed wire fence;

Continued . . .

EXHIBIT "B"

Thence generally along said fence line North 55 degrees 49 minutes 36 seconds East 5326.57 feet to the East line of said section.

EXCEPT from all Parcels I, II and III any portion lying within Prescott-Simmons Highway right of way.

PARCEL VI:

A portion of Section 11, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Southwest corner of said Section 11, as depicted on the Survey Plat recorded in Book 53 of Land Surveys, Page 30, records of said Yavapai County;

Thence South 88 degrees, 11 minutes, 06 seconds East along the South line of said Section 11, a distance of 2711.26 feet to the South quarter corner of said Section 11, as depicted on said Plat;

Thence South 88 degrees, 10 minutes, 26 seconds East (of record South 88 degrees, 13 minutes East) along said South line, a distance of 164.88 feet (of record 165.00 feet) to the Southwest corner of that certain parcel described in Book 2196 of Official Records, Page 746 and Book 3603 of Official Records, Page 873, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North 00 degrees, 08 minutes, 09 seconds West (of record North 00 degrees, 06 minutes, 45 seconds West), along the West line thereof, a distance of 1826.06 feet (of record 1826.19 feet) to the Northwest corner of said parcel, being also the Southwest corner of that certain parcel described in Book 2633 of Official Records, Page 474, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North 00 degrees, 05 minutes, 23 seconds West (of record North 00 degrees, 06 minutes, 45 seconds West) along the West line of said parcel described in Book 2633 of Official Records, Page 474, a distance of 1829.86 feet (of record 1837.24 feet) to the Northwest corner thereof, being also the Southwest corner of that certain parcel described in Book 2439 of Official Records, Page 517, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Continued

EXHIBIT "B"

Thence North 00 degrees, 07 minutes, 54 seconds West (of record North 00 degrees, 07 minutes, 00 seconds West) along the West line of said parcel described in Book 2439 of Official Records, Page 517, a distance of 1832.47 feet (of record 1832.43 feet) to the Northwest corner of said parcel, said corner being a point on the North line of said Section 11 and being monumented with a one-half inch iron bar;

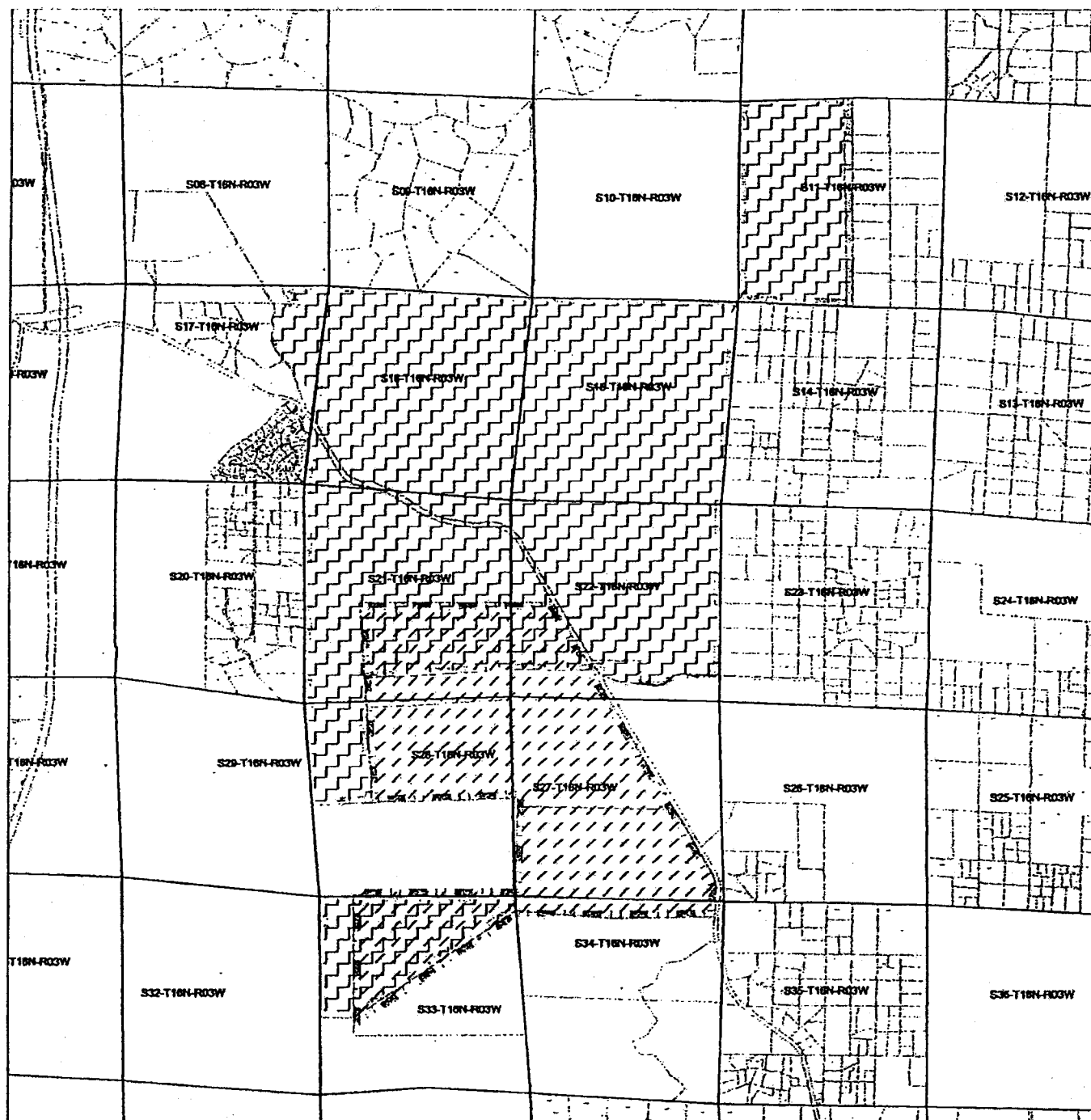
Thence North 88 degrees, 56 minutes, 36 seconds West (of record North 88 degrees, 56 minutes, 06 seconds West) along said North line, a distance of 165.03 feet (of record 165.00 feet) to the North quarter corner of said Section 11, as depicted on said Plat;

Thence North 88 degrees, 56 minutes, 16 seconds West along said North line, a distance of 2778.19 feet to the Northwest corner of said Section 11, as depicted on said Plat;

Thence South 00 degrees, 50 minutes, 19 seconds East along the West line of said Section 11, a distance of 2726.26 feet to the West quarter corner of said Section 11, as depicted on said Plat;

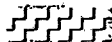
Thence South 00 degrees, 49 minutes, 50 seconds East along said West line, a distance of 2726.10 feet to the POINT OF BEGINNING.

ICR WATER USERS ASSOCIATION, EXISTING CC&N AND REQUESTED EXPANSION

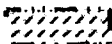


LEGEND

ICR WATER USERS
REQUESTED CC&N EXPANSION



ICR WATER USERS
CC&N AREA



STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

EXHIBIT B

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF ICR WATER
USERS ASSOCIATION, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY
SERVICE.

DOCKET NO.

SUPPLEMENTAL REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

TO DIRECT TESTIMONY

DAYNE TAYLOR

ON BEHALF OF

ICR WATER USERS ASSOCIATION

MARCH 14, 2008

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
6 **INSTANT CASE?**

7 A. Yes, my direct and rebuttal testimony was submitted in support of the initial
8 application in this docket by ICR Water Users Association ("ICR" or
9 "Association").

10 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL**
11 **TESTIMONY?**

12 A. I will to respond to the direct testimony of Intervenor Dayne Taylor with respect
13 to: 1) whether the rates charges to customers and the revenues provided to ICR
14 during the test year through the Well Agreement are equitable, 2) whether Mr.
15 Taylor's recommendation to restructure the Association into two stand-alone
16 systems - one to serve the ICR customers and one to serve the golf course - would
17 lessen the impact on rates to the ICR residential customers, and 3) whether a rate
18 increase would be required if the Well Agreement were not in effect and the golf
19 course paid tariff rates for water supplied by the ICR owned well.

20 **Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?**

21 A. My testimony will be organized as follows: (1) I will provide a summary of my
22 testimony and conclusions; (2) as background, I will discuss the Well Agreement
23 between the Association, Talking Rock Golf Club ("TR Golf") and Harvard
24 Investments and how the Association is compensated for water use; (3) I will
25 provide a cost of service study and discuss its implications as to whether or not the

1 customers of ICR and TR Golf are treated equitably under present and proposed
2 rates; (4) I will provide an analysis of the revenue requirement and rate increase
3 necessary if TR Golf was served by a separate water system; (5) I will provide an
4 analysis of the revenue requirement and rate increase necessary if TR Golf paid
5 tariff rates; and (6) I will respond to issues raised in Mr. Taylor's direct testimony.

6 **II. SUMMARY OF TESTIMONY AND CONCLUSIONS**

7 **Q PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY AND**
8 **CONCLUSIONS.**

9 A. From my analysis of the revenue requirement and required rate increase for a
10 system with and without TR Golf and my cost of service study, I conclude the
11 following:

- 12 1. From a cost of service standpoint, the revenue received by the Association
13 from TR Golf and Harvard Investments for golf course and construction
14 water under both the present and proposed rates is significantly higher than
15 if TR Golf was required to pay rates based upon its cost of service. The
16 revenue provided by the 5/8 inch meter customer class provides
17 significantly less revenue than their cost of service would dictate.
- 18 2. The revenue provided to ICR during the test year by TR Golf and Harvard
19 Investments was more than equitable to the ICR customers.
- 20 3. From a cost of service standpoint, during the test year ICR customers
21 benefit from the relationship with TR Golf. The 5/8 inch meter customer
22 class, consisting almost exclusively of residential customers, is being
23 subsidized by the larger meters and the golf course.
- 24 3. Restructuring the water system into two stand-alone operations (one for the
25 ICR customers and one for TR Golf) would not reduce the O&M and

1 depreciation obligations to the ICR customers, but would in fact increase
2 such obligations.

3 4. An analysis of the revenue requirement for ICR, assuming a restructuring
4 the water system into two stand-alone operations, would result in much
5 higher rates for the ICR customers. Instead of a 33 percent rate increase, as
6 the Association proposed in the instant case, a 70 percent rate increase
7 would be required to meet the Association's minimum operating margins.

8 5. From a cost of service standpoint, assuming that TR Golf and Harvard
9 Investments were customers of ICR, which ICR disputes, it would not be
10 equitable to the TR Golf and Harvard Investments to pay the same rates as
11 the ICR residential customers.

12 **III. THE WELL AGREEMENT**

13 **Q. PLEASE EXPLAIN WHY THERE IS A WELL AGREEMENT AND WHO**
14 **ARE THE PARTIES TO THE WELL AGREEMENT.**

15 A. As described in the testimony of ICR Witness Robert Busch, the member-owned
16 Association entered into a Main Extension agreement with Harvard Investments,
17 or Harvard Simon I, LLC, ("Harvard"), the developer of the Talking Rock Ranch
18 subdivision in 2003.¹ Harvard drilled three wells in the area in order to provide
19 water to homeowners and to the golf course within Talking Rock Ranch.
20 Subsequently, ICR, Harvard, and TR Golf entered into the Well Agreement.
21 Pursuant to the Well Agreement, there are three wells connected to ICR's water
22 system, but not all of the wells are owned by ICR. ICR currently owns one of the
23 wells (Production Well No. 3). TR Golf currently owns the two other wells
24

25

¹ Harvard has assigned its interests to the Well Agreement to Talking Rock Land, LLC. ICR is not related to Harvard, Talking Rock Golf Club, or Talking Rock Land, LLC.

1 (Production Well Nos. 1 and 2). Under the Well Agreement, TR Golf is required
2 to convey Production Well No. 2 to ICR when ICR serves 800 customers in the
3 Talking Rock Ranch system.

4 The water from all three wells is used to provide water to ICR's Talking
5 Rock Ranch customers and to deliver water to the golf course. Under the terms of
6 the Well Agreement, TR Golf pays a wheeling charge for all water delivered by
7 ICR to the golf course and Harvard pays a wheeling charge for construction water.
8 The wheeling charge was originally \$10.00 per acre foot and is adjusted annually.
9 It is now \$11.59 per acre foot. The Well Agreement contains further provisions
10 for the handling and delivery of water from the three wells via ICR's water
11 system, and sets forth the duties and responsibilities of each party, including
12 provisions for TR Golf to pay for maintenance and repair of a portion of ICR's
13 water system as compensation for the use of the system for delivery of water to the
14 golf course. A copy of the Well Agreement is attached as Supplemental Rebuttal
15 Exhibit 1.

16 **Q. PLEASE EXPLAIN THE AMOUNT OF COMPENSATION PROVIDED**
17 **UNDER THE WELL AGREEMENT TO ICR DURING THE TEST YEAR.**

18 A. The total compensation provided to ICR in the Test Year was \$62,488. This
19 amount is made up of \$46,944 of recorded reimbursement revenues, \$4,129 of
20 wheeling charges for golf course water and construction water, and \$11,415 of
21 purchased power costs paid for by the TR Golf and Harvard but attributed to ICR
22 customers.

23 **Q. PLEASE EXPLAIN THE \$11,415 OF PURCHASED POWER**
24 **ATTRIBUTED TO ICR CUSTOMERS?**
25

1 A. During the Test Year, TR Golf and Harvard incurred and paid \$79,491 of
2 purchased power for the three wells in the well field (Production Wells Nos. 1, 2,
3 and 3), the Talking Rock Ranch pump station, and the Double Adobe pump
4 station. ICR was not billed by the golf course for its share of the power costs
5 totaling \$11,415. More importantly, it was not included in operating expenses for
6 computing the requirement in the instant case. For my analysis and cost of service
7 study purposes, however, purchased power costs attributed to ICR customers
8 should be reflected.

9 **Q. HOW DID YOU COMPUTE THE POWER COSTS ATTRIBUTED TO ICR**
10 **CUSTOMERS?**

11 A. First, I computed the power cost per 1,000 gallons by taking the total power costs
12 for the well field and the Talking Rock Ranch pump station and divided it by the
13 total number of gallons pumped from the well field. Since the Double Adobe
14 pump station is only used to pump water for delivery to ICR's residential
15 customers and not the golf course, the power costs of the Double Adobe pump
16 station are initially excluded from this calculation. Next, having computed power
17 cost per 1,000 gallons, I computed the power costs attributed to ICR customers by
18 multiplying the cost rate computed in the first step to the gallons delivered to ICR
19 customers. I then take this amount and add the entire power costs of the Double
20 Adobe pump station in order to get the total amount of power costs attributable to
21 ICR customers.

22 I have computed ICR's share of the power costs on proforma schedule C-2,
23 page 3, attached at Supplemental Rebuttal Exhibit 2, following the description
24 provided above. The ICR share of the power costs for the well field and the
25 Talking Rock Ranch pump station totals \$4,644. The power costs for the Double

1 Adobe pump station total \$6,771. Together, the total power costs attributed to
2 ICR customers is \$11,415.

3 **Q. HAVE YOU CONSIDERED THE ANNUALIZED GALLONS FROM ICR**
4 **CUSTOMERS ON THE TALKING ROCK RANCH SYSTEM AS YOU DID**
5 **IN COMPUTING THE ANNUALIZED POWER COSTS IN THE INSTANT**
6 **CASE?**

7 A. No. Technically, the ICR share of the power costs would be higher than the
8 amount I computed, but, I do not have data to be able to compute the annualized
9 gallons for the Talking Rock Ranch system separately. To some extent, the ICR
10 share of the power costs is understated. However, I believe the impact would be
11 small and would not materially affect my revenue requirement analysis and cost of
12 service study. The total additional quantity of water from the revenue
13 annualization in the instant case is approximately 1.6 million gallons. The
14 Talking Rock Ranch system has approximately one-third of the customers on the
15 entire system. If you assume that one-third of the annualized gallons, or 528,000
16 gallons (1.6 million gallons times 33 percent), is attributed to the Talking Rock
17 Ranch system and using the computed power cost rate per 1,000 gallons, or
18 \$0.4885, as shown on proforma schedule C-2, page 2, the estimated additional cost
19 would be approximately \$257 (528,000 gallons divided by 1,000 times \$0.4885
20 power cost rate).

21 **Q. HOW DID YOU COMPUTE THE WHEELING CHARGE REVENUES?**

22 A. The wheeling charge is equal to the total acre feet of water delivered to the golf
23 course (383.89 acre feet), plus the total amount of construction water (44 acre feet)
24 on the Talking Rock Ranch system times the \$11.35 per acre foot wheeling
25 charged during the Test Year.

1 Q. DO YOU HAVE A SCHEDULE SHOWING THE GALLONS PUMPED
2 AND DELIVERED FROM THE WELL FIELD (THE THREE TALKING
3 ROCK RANCH WELLS) DURING THE TEST YEAR?

4 A. Attached as Supplemental Rebuttal Exhibit 3 is a summary of the water pumped
5 and delivered during the Test Year. As you will find, approximately 125 million
6 gallons of water was delivered to the golf course during the Test Year. Of that
7 amount, approximately 51 million gallons was supplied by the ICR owned well
8 (Production Well No. 3). There was approximately 9.5 million gallons delivered
9 to ICR customers and unaccounted water was approximately 14.3 million gallons.
10 Construction water has not been metered in the past, including the Test Year. So,
11 the Association has assumed that all unaccounted water is construction water.

12 Q. HOW WAS THE QUANTITY OF WATER DELIVERED TO THE GOLF
13 COURSE DETERMINED?

14 A. The water is delivered to the golf course through a 6 inch meter which provides
15 for the measurement of the quantity of water.

16 Q. HOW IS THE QUANTITY OF WATER ATTRIBUTED TO THE
17 TALKING ROCK RANCH ICR CUSTOMERS COMPUTED?

18 A. By subtracting both the quantity of water delivered to the golf course and the
19 unaccounted quantity of water from the total quantity of water pumped from the
20 well field. For the test year and based on Supplemental Rebuttal Exhibit 3 (the
21 summary of water pumped and delivered), the computation is as follows:

Total Gallons Pumped	148,687,000 gallons
Less:	
Gallons Delivered to Golf Course	125,026,000 gallons
Unaccounted Water	<u>14,334,700 gallons</u>

1
2 **Q. DO YOU HAVE AN OPINION REGARDING THE TREATMENT OF**
3 **UNACCOUNTED WATER AS CONSTRUCTION WATER?**

4 A. Yes. In my opinion, the unaccounted water is not all construction water. I
5 believe that construction water is a fraction of the unaccounted water. The
6 customer growth on the system was less than 25 customers during the Test Year,
7 so it is unrealistic that 14,334,700 gallons of construction water was used during
8 the Test Year. Water loss is present on all water systems and can stem from water
9 leaks, periodic flushing of the water system, and theft, which unfortunately has
10 occurred on this water system. In my experience, water loss generally ranges from
11 5 to 10 percent. In fact, the Arizona Corporation Commission ("Commission")
12 Engineering Staff accepts water loss of 10 percent or less. Based on the Test
13 Year, and assuming all of the unaccounted water was water loss rather than
14 construction water, the water loss would have been approximately 9.6 percent
15 (14,334,700 gallons divided by 148,867,000 gallons pumped) well within
16 acceptable ranges.

17 The point of my comments is that construction water quantities are likely
18 overstated, yet for the Test Year and for purposes of the cost of service study all
19 unaccounted water is treated as construction water.

20 **Q. WHAT HAS THE ASSOCIATION DONE TO HELP DISTINGUISH**
21 **BETWEEN CONSTRUCTION WATER AND WATER LOSS?**

22 A. In the past year, the member-owned Association has purchased hydrant meters for
23 measuring delivery of construction water. I should note the Association has
24 informed me that since the downturn in the real estate market there has been very
25 little new construction activity.

1 **IV. COST OF SERVICE STUDY**

2 **Q. WHAT IS A COST OF SERVICE STUDY?**

3 A. A cost of service study is an analysis of the adequacy of water revenues and
4 revenue requirements to be met by the various classes of customers under both
5 existing and proposed rates. The study begins with an allocation of utility plant
6 and expenses into cost and asset functions which are then allocated to customer
7 classifications. The study attempts to trace the costs resulting from meeting the
8 customers' service requirements. Ideally, the revenues received from each
9 customer class should equal the cost of providing service to that customer class.
10 The cost to provide service includes the operating and maintenance expenses and
11 the capital costs. Operating and maintenance expenses include the costs of
12 operating the system and the costs of maintaining system facilities and equipment.
13 Capital costs include investment-related cash requirements such as debt service,
14 contributions to debt service reserves, and capital requirements not financed by
15 debt. Capital costs also include depreciation expense and either a return on rate
16 base (for-profit utilities) or an operating margin (non-profit utilities) as well as
17 incomes taxes and other taxes, if applicable.

18 **Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?**

19 A. Typically, the purpose of preparing a cost of service study is to offer guidance in
20 setting rates to be charged for utility service. The basic premise in establishing
21 rates for the various classes of customers that are both adequate and equitable is
22 that rates should reflect the cost of providing utility service. Generally, regulators
23 should set rates based on the cost of service. Put simply, this assures that the cost
24 of providing service is allocated equitably among customers and customer classes.
25 Cost-based rates also send an appropriate price signal to customers because the

1 amount paid for service approximates the cost to provide the service. In other
2 words, subsidies between customers are minimized.

3 There are many factors at play when rates are set which may result in rates
4 which are not adequate and/or equitable between the various classes of customers.
5 Non-economic factors may be at play when rates are set. For example, the
6 regulatory body may favor subsidizing one class of customer by shifting costs to
7 other classes of customers, or shifting revenues within one class of customer to
8 subsidize members within that class. Lifeline or discounted rates, which are
9 sometimes used to assist low-income customers in areas with high utility costs, are
10 prime examples of subsidization of a class of customers by other customers. If
11 possible, Lifeline or discounted rates should not apply to a whole customer class.
12 If Lifeline or discounted rates are needed, they should be offered only to
13 customers meeting some income test.

14 Another example is rate designs intended to encourage conservation.
15 Conservation-based rates deviate from cost-of-service principles because larger
16 water users pay more than their cost of service. Inverted-tier rates shift revenue
17 recovery into the upper rate blocks in order to send a price signal to customers,
18 regardless of the cost to serve those customers. This may be a desirable social
19 policy, but these rates may also be regarded as unfair and discriminatory by larger
20 water users on economic grounds.

21 Thus, public policy may have a significant impact on rate design. The
22 Commission should consider the impact that these sorts of alternative rate designs
23 have on other customers, and the degree that such approaches deviate from cost-
24 based rates, which may result in inequities and, in extreme cases, cause customers
25 to develop alternatives to service from the utility provider.

1 **Q. DID YOU PREVIOUSLY PREPARE A COST OF SERVICE STUDY AND**
2 **SUBMIT IT WITH THE ASSOCIATION'S ORIGINAL APPLICATION?**

3 A. No. Cost of service studies are costly to prepare and as a result they are not
4 typically prepared for non-profit, small water utilities like ICR. For larger
5 utilities, cost of service studies may or may not be prepared depending on whether
6 there is a compelling need to do so, such as a significant change in the rate design.
7 In the absence of a cost of service study, rates are set using general rate design
8 principles in conjunction with the general rate design objectives and policies of
9 regulators. Under these conditions the rate design may or may not reflect the cost
10 of service for the various classes of customers. Based upon the assertions of
11 Intervenor Taylor, however, the Association felt compelled to prepare a cost of
12 service study in order to refute his contention that the residential customers were
13 subsidizing the golf course and to demonstrate that from a cost of service
14 standpoint, rate payers are not disadvantaged by the Well Agreement. The cost of
15 service study is attached hereto as Supplemental Rebuttal Exhibit 4.

16 I should also note that despite the additional costs incurred by ICR in
17 responding to Mr. Taylor's assertions, ICR has not yet requested additional rate
18 case expense.

19 **Q. HOW IS YOUR COST OF SERVICE STUDY ORGANIZED?**

20 A. The standard filing requirements call for Schedules G-1 through G-7. I have also
21 included Schedules G-8, G-9, and G-10. These schedules show cost based rate
22 designs which I will explain later in my testimony.

23 G Schedules with higher numbers, i.e. 5, 6 and 7 contain the allocation
24 factors and actual allocations to functions. These functions are then carried
25

1 forward to the summary G schedules 1, 2, 3 and 4, which allocate expenses and
2 plant (by function) to classes of customers (by meter size).

3 I will start my analysis using Schedule G-7 and end with Schedules G-2
4 and G-1. I will then describe Schedules G-8 and G-9.

5 **Q. WHAT IS A FUNCTION?**

6 A. Functions refer to the plant and the expenses needed to get the water (the
7 commodity) from the source (well or surface water) to the customer. The
8 functions are commodity, demand, customer, meter, and service.

9 Commodity refers to the actual volume of water delivered. The commodity
10 function is used to derive the commodity rate or the rate charged per unit of
11 measurement, i.e., 1,000 gallons of water. Demand refers to how the water system
12 is sized to deliver the water, which is normally determined by total customers and
13 fire flow requirements. Hence, the system is built to be able to deliver water (the
14 commodity) to customers, as well as the demand placed on the water system when
15 water is used to contain or fight a fire.

16 Customer, service, and meter functions are also used to develop the
17 monthly minimum charged to each class of customer. The full cost of the demand
18 function should also be included in the monthly minimum charge. However, the
19 practice of Commission Staff has been to allocate a portion of the demand
20 function to both the commodity rate and to the monthly minimum charge.

21 Demand, customer, service and meter functions refer to the delivery of the
22 water from the Association's wells, surface sources or reservoirs through the
23 transmission and distribution mains to the individual customer's premises. The
24 costs associated with demand, customer, service and meter functions are incurred
25

1 whether the customer uses 1,000 gallons or 1,000,000 gallons of water each
2 month.

3 Fire protection assets (e.g., hydrants) and expenses associated with fire
4 protection, including depreciation, should be allocated to the customer function
5 because fire protection generally benefits all customers on the system. This has
6 been the Commission's policy with regard to fire protection costs.

7 **Q. WHAT TYPE OF COST OF SERVICE STUDY DID YOU PREPARE TO**
8 **SUPPORT THE PROPOSED RATES AND WOULD YOU PROVIDE A**
9 **MORE DETAILED EXPLANATION OF FUNCTIONS?**

10 **A.** I used the Commodity / Demand Method for the cost of service study. This
11 method normally separates expenses and assets into three primary functions or
12 components: commodity; demand; customer (with further breakdown of customer
13 costs and plant into meter and service line).

14
15 Commodity costs are costs that tend to vary (change) with the production or
16 output of water. These costs would consist primarily of power costs, chemicals,
17 water treatment, purchased water, and other variable expenses. Please note that I
18 included a portion of the demand function into the commodity function to adhere
19 to Commission Staff's past practices.

20 Demand costs are capital and maintenance costs of facilities related to
21 meeting the peak demand or peak usage requirements. The plant assets which
22 cause the bulk of the demand cost are transmission and distribution mains.

23 Customer costs are those costs related to serving and/or having customers,
24 without regard to the amount of water used. These costs would include meter
25 reading, billing, customer accounting and collection, and the capital costs and

1 maintenance costs related to the meters, services, and customer equipment such as
2 meters, service lines, computers, office furniture, transportation equipment, etc.

3 **Q. AFTER COSTS ARE ALLOCATED TO FUNCTIONS, HOW ARE**
4 **EXPENSES AND ASSETS THEN ALLOCATED TO THE INDIVIDUAL**
5 **CLASSES OF CUSTOMERS?**

6 A. After the expenses and assets are allocated to the commodity, demand, customer,
7 service, and meter functions, the values for the functions were then allocated to
8 various customer classes. Customer classes are based on meter sizes on the
9 system.

10 **Q. DOES A COST OF SERVICE STUDY PROVIDE DATA TO DETERMINE**
11 **HOW THE TIERED RATE DESIGN SHOULD BE SET?**

12 A. No. The cost of service study will provide the cost of the commodity, but it will
13 not provide data on where rate tiers should be set. The tiers rates can be based on
14 studying the usage by the customers.

15 **Q. WOULD YOU PLEASE DESCRIBE AND EXPLAIN THE SCHEDULES**
16 **WHICH COMPRISE YOUR COST OF SERVICE STUDY, AND WOULD**
17 **YOU DESCRIBE HOW THE VARIOUS FUNCTIONS WERE**
18 **DEVELOPED?**

19 A. The allocations for the development of the class allocation factors are shown on
20 Schedule G-7, pages 1 through 3.

21 The commodity allocation is based on the number of gallons of water used
22 by customers on various sizes of meters, plus the gallons from the revenue
23 annualization to year end number of customers, divided by the total gallons of
24 water sold (including gallons from the revenue annualization) during the Test
25 Year. Thus, if 80,000,000 gallons of water were sold through the 5/8 inch meters,

1 out of a total of 100,000,000 gallons of water sold by the water utility, this meter
2 size would be allocated 80% of the commodity cost.

3 The demand allocation factor consists of the number of meters for each size
4 of meter on the system, multiplied by the equivalent weight of each size of meter.
5 The equivalent weight is determined by the flow capacity of each meter. A 5/8
6 inch meter can flow 20 gallons per minute, while a 6 inch meter can flow 1,000
7 gallons per minute. Thus, one 6 inch meter is equivalent to approximately fifty
8 5/8 inch meters. The larger meters are restated into equivalent 5/8 meters to
9 derive a monthly meter charge for the 5/8 inch meter. Then based on flow
10 capacity, monthly minimums are developed for larger meters.

11 The customer allocation factor is the number of customers on each size
12 meter. The allocation is based on total meters, not equivalent meters. It costs no
13 more to read a 6 inch meter than a 5/8 inch meter, nor does it cost more to issue a
14 bill.

15 I computed the meter allocation factor by multiplying the number of meters
16 times the most recent cost of installing a meter. (Costs were used from the
17 Commission Staff Engineering memorandum originated by Marlin Scott, Jr., dated
18 June 30, 2004.) The dollar weighted value of meters is then divided by the total
19 computed meter cost to derive the meter allocation factor to each class of
20 customer.

21 The service line allocations were computed in the same manner as the
22 meters. That is, I used the values listed on the Commission Staff memorandum to
23 derive a total value of the service lines. The allocation to each service line size
24 was the result of dividing the dollar value of the service lines for each customer
25 class by the total dollar value of the service lines.

1 Schedule G-7, page 2.1 lists the allocation of expenses for repairs and
2 maintenance and for contract services from A Quality Water, the outside contract
3 operator of the water system. A Quality Water provides services for meter
4 reading, water system operations, routine repairs and maintenance, and regulatory
5 compliance work. Allocation factors for repairs and maintenance were determined
6 by examining the repairs and maintenance expenses recorded during the test year
7 and use of professional judgment.

8 The depreciation expense allocations shown on Schedule G-6, page 2,
9 apply the allocation factors shown on Schedule G-7, page 2, times the depreciation
10 expense for each plant asset. For the demand function for Wells, Mains, Water
11 Treatment Equipment, and Pumping Equipment, I assumed an allocation factor of
12 90 percent. Ten percent of plant values and related depreciation expense for
13 Wells, Mains, Water Treatment Equipment, and Pumping Equipment was
14 allocated to the commodity function.

15 The depreciation expense was computed with the Association's proposed
16 depreciation rates. The proposed depreciation rates are the same rates as proposed
17 in the current case and are based on Commission Staff's recommendations in other
18 rate cases.

19 The operation and maintenance expense allocation to functions
20 (commodity, demand, customer, service, and meter) are shown on Schedule G-6,
21 page 1.

22 On Schedule G-5, page 2, I allocated net plant rather than gross plant, via
23 deducting the accumulated depreciation from each plant asset.

24 I deducted the advances in aid of construction ("AIAC") and contributions
25 in aid of construction ("CIAC") from the plant balances normally financed with

1 AIAC and CIAC, which would be primarily transmission and distribution mains. I
2 allocated the AIAC and CIAC to both the demand and commodity functions to be
3 consistent with my allocation of the transmission and distribution mains. The
4 allocations are shown on Schedule G-5, page 2.

5 Then I computed rate bases for each function (commodity, demand,
6 customer, service and meter). The rate bases by function are shown on Schedule
7 G-5, page 1. Rate base is not a factor in determining the revenue requirement for
8 non-profit utilities like ICR.

9 Schedule G-4 allocates the commodity, demand, customer, service and
10 meter expenses to meter sizes using the allocation factors developed on Schedule
11 G-7, page 3.

12 Schedule G-3 allocates the rate bases for commodity, demand, customer,
13 service, and meter to customer classes, which are meter sizes. Again, rate base is
14 not a factor in determining the revenue requirement for non-profit utilities like
15 ICR.

16 Schedules G-1 and G-2 derive the operating margins by customer classes
17 (meter sizes) at present and proposed rates respectively. The operating margins
18 are computed by dividing the operating income for each meter size by the
19 revenues provided through rates for that meter size.

20 Property taxes are allocated based on revenue, as this revenue is the main
21 factor in the method used by the Arizona Department of Revenue to determine the
22 full cash value of the utility.

23 Income Taxes are allocated based on taxable income on Schedules G-1 and
24 G-2. I should note that for non-profit utilities, the only income tax is the required
25 filing fee. Income taxes have little impact on the cost of service as a result.

1 **Q. WHAT CONSIDERATIONS HAVE YOU MADE IN THE STUDY?**

2 **A.** There are a number of special considerations.

3 First, for purposes of this study, and because the golf course is provided
4 service through a 6 inch meter, the golf course is included in the cost of service
5 study as if it was a 6 inch metered customer. As Mr. Busch has testified in his
6 Supplemental Rebuttal Testimony, the golf course is not a customer of the
7 Association.

8 Second, to develop the commodity allocation factors I used approximately
9 139.3 million gallons for the golf course 6 inch meter. This quantity of water
10 represents the quantity of water delivered to the golf course (approximately 125
11 million gallons) plus the unaccounted water (approximately 14.3 million gallons)
12 obtained from all three wells on the Talking Rock Ranch side of the system. In
13 reality, only 51 million gallons was delivered through the system to the golf course
14 from Association owned well (Production Well No. 3). I used approximately
15 139.3 million gallons for the golf course because charges to the golf course
16 include a wheeling charge for the use of the ICR mains to transport water to the
17 golf course and for construction water.

18 Third, for purposes of the cost of service study, \$11,415 of power costs
19 paid for by the golf course that are attributable to ICR's customers are included in
20 operating expenses and allocated to meter sizes other than the golf course 6 inch
21 meter.

22 Fourth, \$11,415 of power costs paid by the golf course that are attributable
23 to ICR customers are included in revenues from the golf course 6 inch meter.

24 Fifth, all purchased power costs in the study have been allocated to the 2
25 inch and smaller meters as none of the power costs in operating expenses are

1 attributed to the golf course 6 inch meter. As I have previously discussed, the golf
2 course pays all the power costs on the Talking Rock Ranch side of the system
3 including some costs attributable to ICR customers. The power costs recorded on
4 ICR's books during the Test Year are attributed to ICR customers only and not the
5 golf course. Total purchased power in the study totals \$27,654, which includes
6 \$16,239 recorded on the ICR books during the Test Year plus the \$11,415 paid for
7 by the golf course.

8 Sixth, an attempt was made in this study to account for and allocate to the
9 golf course 6 inch meter cost of service for the potential over sizing of the water
10 system to allow ICR to deliver large volumes of water to the golf course. It is not
11 clear whether or not any over sizing was actually made to the system to
12 accommodate the delivery of water to the golf course. The Talking Rock Ranch
13 transmission mains were designed to deliver water to customers at full build-out
14 which may have required the size mains presently installed. Nevertheless, to
15 address potential criticism of the study due to exclusion of over sizing impacts,
16 they were included. The potential incremental plant cost was estimated to be
17 \$158,395. This cost is the increment cost of increasing the transmission main size
18 from 10 inch to 12 inch. The depreciation impact for over sizing is \$3,168 and
19 this cost is allocated entirely to the golf course 6 inch meter cost of service.

20 **Q. WHAT IS THE RANGE OF THE OPERATING MARGINS FOR THE**
21 **VARIOUS METER SIZES AT PRESENT RATES?**

22 **A.** As shown on Schedule G-1, the operating margins vary substantially between the
23 various meter sizes at present rates. The golf course 6 inch meter provides the
24 highest operating margins at present rates at 38.68 percent. The 5/8 inch meter
25 size provides the lowest operating margin at present rates at a negative 35.81

1 percent. The 5/8 inch meter size is serving most of the customers on the system
2 while at the same time providing the lowest operating margin – even one that is
3 significantly negative.

4 **Q. WHAT IS THE OPERATING MARGIN FOR THE VARIOUS METER**
5 **SIZES AT PROPOSED RATES?**

6 A. As shown on Schedule G-2, the operating margins at proposed rates also vary
7 substantially between the various meter sizes. The golf course 6 inch meter
8 provides the highest operating margin at 40.24 percent. The 5/8 inch meter size
9 provides the lowest operating margin at present rates at 1.68 percent. Even under
10 proposed rates, the 5/8 inch meter size provides the lowest operating margin.

11 **Q. WHAT DOES THE COST OF SERVICE STUDY INDICATE?**

12 A. The 5/8 meter size is being subsidized by the 2 inch meter size and the golf course
13 6 inch meter. If the goal of the proposed rate design is to achieve an overall 14.5
14 percent operating margin and the 5/8 inch meter size provides for only 1.68
15 percent operating margin, then the 5/8 inch meter class is not paying its “fair
16 share” of the cost of service. The deficit in the revenues provided by 5/8 inch
17 meter size is being made up by the 2 inch meter size and the golf course 6 inch
18 whose operating margins are far greater than the overall 14.5 percent operating
19 margin at 36.03 percent and 40.24 percent, respectively.

20 More importantly, the overall operating margin at proposed rates provided
21 by meter sizes other than the golf course 6 inch meter is 9.13 percent – less than
22 the 14.5 percent operating margin. Without the golf course 6 inch meter, with a
23 40.24 percent, the overall operating margin would not be achieved.

1 Q. WHY DO YOU REFER TO A 14.5 PERCENT OPERATING MARGIN
2 WHEN, IN THE INSTANT CASE, THE OPERATING MARGIN USED TO
3 COMPUTE THE REVENUE REQUIREMENT IS 15 PERCENT?

4 A. The overall operating margin in the cost of service study at proposed rates is 14.5
5 percent due primarily to the inclusion of power costs of \$11,415 in operating
6 expenses and in revenues. The net effect on operating income is zero but the
7 operating margin is skewed because total revenues are higher. You will find on
8 the G-2 schedule that the total operating income of \$53,489 matches the
9 Association's rejoinder schedule C-1 operating income of \$53,489 at proposed
10 rates. Put simply, we are dividing the operating income by a higher revenue
11 number so the operating margin is lower but the operating income in dollars is the
12 same.

13 Q. IF THE COST OF OVER SIZING THE MAINS WERE DOUBLED OR
14 EVEN TRIPLED, WOULD THE INDICATIONS OF THE COST OF
15 SERVICE STUDY AND YOUR CONCLUSIONS CHANGE?

16 A. No. If the plant costs for over sizing were tripled to \$475,185 (\$158,395 times 3)
17 the depreciation impact would triple to \$9,504 (\$3,168 times 3). The golf course
18 6 inch meter would still provide a much higher operating margin than the 5/8
19 meter at present and proposed rates. In fact, the operating margin for the golf
20 course 6 inch meter at present and proposed rates would be 30.30 percent and
21 31.98 percent, respectively. Compare this to the operating margins shown in the
22 cost of service study of 38.68 percent and 40.24 percent, respectively. The 5/8
23 inch meter would still be subsidized by the golf course even though the 5/8 inch
24 meter operating margin would improve to a negative 33.37 percent and 3.44
25 percent under present and proposed rates, respectively.

1 **Q. DID YOU PREPARE SCHEDULES SHOWING RATE DESIGNS BASED**
2 **ON THE COST OF SERVICE STUDY?**

3 A. Yes. Cost based monthly minimums and commodity rates are shown
4 Schedules G-8 and G-9. Schedule G-8 shows cost based rates for ICR customers
5 exclusive of the golf course, while Schedule G-9 shows cost based rates for the
6 golf course assuming the golf course is a customer. However, as I stated earlier,
7 Mr. Busch has testified that the golf course is not a customer, so Schedule G-9 is
8 for demonstrative purposes only.

9 It is important to note that the combined rate designs will achieve the over
10 all 14.5 percent operating margin. The rate design on Schedule G-8 (for ICR
11 customers) will achieve a 9.18 percent operating margin, while the rate design on
12 Schedule G-9 (for the golf course and construction water) will achieve a 40.24
13 percent operating margin.

14 **Q. WOULD YOU PLEASE DISCUSS SCHEDULE G-8?**

15 A. Schedule G-8 computes the cost based monthly minimums for each meter size and
16 the commodity rates. The golf course cost of service is excluded from the
17 computation as I have computed cost based monthly minimums and commodity
18 rates for the golf course separately on Schedule G-9 which I will discuss later. On
19 Schedule G-8, in the monthly minimums for each size meter, I have included the
20 demand related expenses and capital costs. The computed monthly minimum
21 gives guidance on the rates that should be charged regardless of customer water
22 usage. The proposed rates in the instant case as to monthly minimum charges on
23 the H-3 schedule are noticeably below what the computed monthly minimums
24 shown on Schedule G-8, page 3.

25 The computed commodity rate is substantially below the proposed

commodity rate (and for that matter, below the present commodity rates) for the first tier (compare to the proposed commodity rates shown on the Association's Rebuttal Schedule H-3). The disparity (computed cost vs. proposed rates) continues as you compare the proposed rates using tier two or three tier rates.

Q. WHAT IS THE MONTHLY MINIMUM FOR A CUSTOMER ON A 5/8 INCH METER THAT YOU COMPUTED IN YOUR COST OF SERVICE STUDY?

A. The monthly minimum, with no water in that minimum, should be \$53.00 when you include the allocations for expenses and plant for the function of demand, customer, meter and service line.

Q. HOW DOES THE COMPUTED MONTHLY MINIMUM CHARGE COMPARE TO THE ASSOCIATION'S PROPOSED MONTHLY MINIMUM?

A. The proposed monthly minimum for a 5/8 inch meter is \$26.20, or approximately 49 percent of the computed monthly minimum of \$53.00 as shown on Schedule G-8, page 3. Thus, the proposed monthly minimum does not reflect the actual cost for the monthly minimum.

Q. WHAT IS THE COMPUTED COMMODITY CHARGE, WITHOUT REGARD TO TIERS, THAT WOULD BE DERIVED FROM YOUR COST OF SERVICE STUDY?

A. The computed commodity rate is \$1.13 per 1,000 gallons of water from the cost of service study (Schedule G-8, page 3).

Q. HOW DOES THE COMPUTED COMMODITY RATE COMPARE TO THE ASSOCIATION PRESENT AND PROPOSED COMMODITY RATES?

1 A. The present commodity rate being charged is \$2.80 per 1,000 gallons. This rate is
2 approximately 2.5 times what it costs to produce the water.

3 The Association's proposed commodity rates are \$2.984 for tier one,
4 \$3.384 for the tier two, and \$4.454 for tier three for the 5/8 inch meter. The
5 proposed second tier rates are nearly 3 times the cost to produce the water while
6 the proposed third tier rate is nearly 4 times the cost to produce the water. Thus,
7 the proposed second tier and third tier commodity rates are vastly overstated when
8 compared to the cost to produce the water.

9 **Q. DOES THE FACT THAT THE ASSOCIATION WILL BE COLLECTING**
10 **MONTHLY MINIMUMS SUBSTANTIALLY BELOW THE MONTHLY**
11 **MINIMUM COST AND COMMODITY RATES SUBSTANTIALLY**
12 **ABOVE THE COMMODITY COST ADD RISK TO THE ASSOCIATION?**

13 A. Yes. The risk is quite substantial. Inverted multi-tier rates designs as proposed in
14 this case encourage conservation. If conservation is actually achieved, usage will
15 decline and it will cause a substantial shortfall in the revenues the Association
16 collects. That means that it will be impossible to actually achieve the requested
17 operating margin.

18 **Q. COULD YOU ILLUSTRATE THE ABOVE ANSWER?**

19 A. Yes. Schedule G-10 illustrates what happens when conservation is achieved. The
20 operating margin is shown based on a 5/8 inch metered customer. I have
21 constructed the illustration showing the profit or loss that is achieved at increments
22 of 1,000 gallons through 100,000 gallons of monthly usage. The cross over point
23 going from a loss to a profit is between 10,000 and 12,000 gallons and is
24 substantially above the average usage for the 5/8 inch meter customer class of
25 approximately 7,100 gallons. By pricing the monthly minimum substantially

1 below cost and the commodity rate substantially above cost, the Association will
2 under earn if water sales drop. Conversely, if water sales increase, there is the
3 potential to over earn. Although in this particular case, since the average usage is
4 well below the break-even point, the potential to over earn is less likely than the
5 potential to under earn.

6 **Q. THE ASSOCIATION CURRENTLY HAS A SINGLE TIER RATE**
7 **DESIGN. IS MOVING FROM A SINGLE TIER DESIGN TO A TWO OR**
8 **THREE TIER DESIGN THE RISK YOU REFER TO?**

9 A. Yes. With the proposed rate design, the monthly minimum is being substantially
10 subsidized by the commodity rate. In other words, the Association must recover
11 large amount of fixed costs, through sales of water, which can vary based on
12 weather, or conservation efforts. Any conservation by customers will substantially
13 impact the Association's net income.

14 **Q. WHAT HAPPENS WHEN THE MONTHLY MINIMUMS AND**
15 **COMMODITY RATES ARE NOT PRICED AT COST?**

16 A. Two things can happen. If customers don't conserve and usage increases rather
17 than decreases, the Association will over earn. If customers conserve, or just use
18 less water due to more rainfall, the Association will under earn. If usage changes
19 substantially, either up or down, the impacts I just referred to will be magnified.

20 **Q. BUT EVEN IF THE MONTHLY MINIMUMS AND COMMODITY RATES**
21 **ARE PRICED AT COST, WOULDN'T THE ASSOCIATION STILL OVER**
22 **OR UNDER EARN IF CUSTOMERS USE MORE OR LESS WATER,**
23 **THAN WAS USED TO IN THE TEST YEAR?**

24 A. Yes, but to a far lower extent.
25

1 Q. WHAT WOULD BE A SINGLE TIER RATE DESIGN FOR ICR
2 CUSTOMERS ASSUMING APPROXIMATELY THE SAME LEVEL OF
3 REVENUES WERE RECOVERED THROUGH THE MONTHLY
4 MINIMUM AS PROVIDED BY THE ASSOCIATION'S PROPOSED
5 MONTHLY MINIMUMS?

6 A. On Schedule G-8, page 4, I set forth a computation of a single tier rate design.
7 The rate design assumes rates charged a rate sufficient to recover the ICR
8 customers cost of service which would include the 9.18 percent operating margin.
9 As shown, the 5/8 inch month minimum would be \$26.78 and the commodity rate
10 \$4.158. My computation contemplates 45 percent of the demand costs and 45
11 percent of the customer, service and meter costs included in the computation of the
12 monthly minimum. The 45 percent is approximately the percentage of proposed
13 revenues recovered through the monthly minimums in the instant case. In my
14 experience, the monthly minimums under Staff's proposed rate designs typically
15 recover 40 to 50 percent of the "fixed costs". Thus 45 percent is not an
16 unreasonable figure.

17 The computed monthly minimum of \$26.78 is relatively close to the
18 proposed monthly minimum of \$26.20. The computed commodity rate of \$4.158
19 is higher than both the proposed first tier rate of \$2.984 and the proposed second
20 tier rate of \$3.834, but lower than the third tier rate of \$4.454. Because the
21 commodity rates for the first and second tier are below the computed commodity
22 rate, the Association faces increased risk of not recovering the revenue
23 requirement if water sales are negatively impacted by conservation and weather.
24
25

1 **Q. WOULD YOU PLEASE DISCUSS SCHEDULE G-9?**

2 A. Schedule G-9 computes the cost based monthly minimum for the golf course 6
3 inch meter and the commodity rate assuming it were charged a rate sufficient to
4 recover its cost of service which would include the 40.24 percent operating
5 margin. As on Schedule G-8, I have included the demand related costs and capital
6 costs on Schedule G-9 in the monthly minimum. The computed monthly
7 minimum provides guidance on the rate that should be charged regardless of the
8 golf course water usage. As can be seen from Schedule G-9, page 3, the
9 computed commodity rate is substantially below the proposed commodity rates for
10 the second and third tiers as shown on Rebuttal Schedule H-3 for the 6 inch meter.

11 **Q. DOES YOUR COMPUTATION INCLUDE WATER QUANTITIES FROM**
12 **ALL THREE WELLS AND NOT STRICTLY FROM THE ASSOCIATION**
13 **OWNED WELL?**

14 A. Yes, this is to be consistent with the gallons used in the cost of service study for
15 the golf course and construction water. The water from the two production wells
16 not currently owned by the Association is not the Association's water to sell.
17 Only 51 million gallons came from to the ICR owned well and used on the golf
18 course. Construction water of 14.3 million gallons came from the two other
19 production wells. By using 139 million gallons, the commodity cost is skewed to
20 the golf course.

21 I should also note that the power costs associated with serving the golf
22 course are not included in the study. As I testified, TR Golf and Harvard currently
23 pay over \$68,000 of power costs attributed to the golf course and construction
24 water. If ICR takes responsibility for all power costs, then the commodity rate
25 would be higher as a result.

1 Q. WHAT IS THE MONTHLY MINIMUM FOR THE GOLF COURSE 6
2 INCH METER THAT YOU COMPUTED IN YOUR COST OF SERVICE
3 STUDY?

4 A. The monthly minimum, with no water in that minimum, should be approximately
5 \$3009 when you include the allocations for expenses and plant for the function of
6 demand, customer, meter and service line.

7 Q. HOW DOES THE COMPUTED MONTHLY MINIMUM CHARGE
8 COMPARE TO THE ASSOCIATION'S PROPOSED MONTHLY
9 MINIMUM FOR A 6 INCH METER?

10 A. The proposed monthly minimum for a 6 inch meter is \$1,310, or approximately 43
11 percent of the computed monthly minimum of \$3,009 as shown on Schedule G-9,
12 page 3. Thus, the proposed monthly minimum does not reflect the actual cost for
13 the monthly minimum if the proposed monthly minimum were to be used.

14 Q. WHAT IS THE COMPUTED COMMODITY CHARGE FOR THE GOLF
15 COURSE, WITHOUT REGARD TO TIERS, THAT WOULD BE DERIVED
16 FROM YOUR COST OF SERVICE STUDY?

17 A. The computed commodity rate is \$0.20 per 1,000 gallons (\$65.17 per acre foot) of
18 water as shown on Schedule G-9, page 3.

19 Q. WHAT WOULD BE A SINGLE TIER RATE DESIGN FOR THE GOLF
20 COURSE ASSUMING APPROXIMATELY THE SAME LEVEL OF
21 REVENUES WERE RECOVERED THROUGH THE MONTHLY
22 MINIMUM AS PROVIDED BY THE ASSOCIATION'S PROPOSED
23 MONTHLY MINIMUMS?

24 A. On Schedule G-9, page 4, I set forth a computation of a single tier rate design. As
25 shown, the 6 inch month minimum would be approximately \$1,655 and the

1 commodity rate \$0.317. Again, my computation contemplates 45 percent of the
2 demand costs and 45 percent of the customer, service and meter costs included in
3 the computation of the monthly minimum, as discussed earlier. The computed
4 monthly minimum of \$1,655 is higher than the proposed 6 inch meter monthly
5 minimum of \$1,310. The computed commodity rate of \$0.317 is significantly
6 lower than both the proposed first tier rate of \$3.834 and the proposed second tier
7 rate of \$4.454 for the 6 inch meter.

8 **V. ANALYSIS OF THE REVENUE REQUIREMENT WITHOUT THE GOLF**
9 **COURSE**

10 **Q. WHAT IS THE PURPOSE OF YOUR ANALYSIS OF THE REVENUE**
11 **REQUIREMENT WITHOUT THE GOLF COURSE?**

12 A. The purpose of my analysis is to determine the revenue increase or decrease that
13 would be required if the golf course were to be served by a separate stand alone
14 system.

15 **Q. PLEASE EXPLAIN YOUR ANALYSIS.**

16 A. The proforma analysis assumes the revenues provided by TR Golf and Harvard
17 (for golf course water and construction water) to ICR are eliminated from
18 revenues, and power costs currently paid for by TR Golf and Harvard on behalf of
19 ICR customers are included in operating expenses. It also assumes the revenue
20 increase required would be necessary to achieve an required operating income
21 equal to the required operating income of \$53,489 on the Association's Rebuttal
22 Schedule A-1 To illustrate, I prepared proforma schedules A-1, C-1, and C-2,
23 attached as Supplemental Rebuttal Exhibit 2.

24 As shown on the proforma schedule A-1, the adjusted operating income
25 without the golf course is a negative \$97,546. To achieve the same operating

1 income as the Association has proposed in this case, or \$53,489, a 14.53 percent
2 operating margin is required and a revenue increase of \$151,183 is necessary.
3 The revenue increase over the proforma adjusted revenues is nearly 70 percent
4 compared to the 33 percent proposed by the Association in the instant case.

5 **Q. PLEASE EXPLAIN THE PROFORMA SCHEDULE C-1 AND THE**
6 **ADJUSTMENTS MADE TO DETERMINE THE OPERATING INCOME**
7 **WITHOUT THE GOLF COURSE IS A NEGATIVE \$97,546.**

8 A. The proforma schedule C-1 shows adjusted the revenues and expenses without the
9 golf course. The proforma C-1 schedule starts with the adjusted test year
10 revenues and expenses per the Association's Rebuttal Schedule C-1. The rebuttal
11 adjusted revenues, operating income, and operating expenses are \$268,047,
12 \$35,058, and \$303,105, respectively. Next, revenue and expense adjustments to
13 reflect the revenues and operating expenses without the golf course are shown.
14 The details of the adjustments are shown on the proforma schedule C-2, pages 1
15 through 3 and are as follows:

- 16 1. Adjustment number 1 removes 46,944 of golf course expense
17 reimbursement revenues recorded during the test year.
- 18 2. Adjustment number 2 removes \$4,277 of wheeling charge attributed
19 to the golf course and construction water from metered revenues.
- 20 3. Adjustment number 3 increases purchased power by \$11,415 of
21 power costs incurred by TR Golf and Harvard but attributable to ICR
22 customers.

23 **Q. WHY DID YOU NOT ADJUST DEPRECIATION EXPENSE?**

24 A. Because the depreciation expense will be there whether or not the golf course is
25 present. With the golf course absent from the system, the full amount of

1 depreciation will need to be recovered from ICR customers.

2 **Q. DOES THE ASSOCIATION'S CAPITALIZATION CONSIST**
3 **EXCLUSIVELY OF ZERO COST CAPITAL?**

4 A. Yes. All of the Association's plant-in-service is funded with either AIAC or
5 CIAC. It is no surprise that the rate base in the instant case is negative. In other
6 words, there is no member equity financing any of the plant.

7 **Q. WHY IS THERE DEPRECIATION IF THE PLANT IS EXCLUSIVELY**
8 **FUNDED WITH ZERO COST CAPITAL?**

9 A. While no depreciation is allowed in rates for plant funded with CIAC,
10 depreciation is allowed in rates for plant funded with AIAC. Presumably, the
11 cash flows from depreciation are used for refunds on AIAC. Generally, in the
12 early years of an AIAC contract, refunds are less than the depreciation cash flows
13 providing a positive net cash flow to the Association. This helps provide some
14 financial stability while the system grows to full build-out. For most refundable
15 line extension agreements, by the time full build-out occurs, the agreement expires
16 and any remaining un-refunded balance reverts to a CIAC. Typically, no more
17 than about 30-40 percent of the original line extension agreement amount ever
18 gets refunded.

19 **Q. WOULD DEPRECIATION EXPENSE AND RATES BE LOWER IF THE**
20 **ICR PLANT WAS 100 PERCENT CONTRIBUTED?**

21 A. Yes. However, I believe that having 100 percent contributed plant isn't
22 financially healthy. Depreciation is recovery of investment in plant. Eventually,
23 plant has to be upgraded and/or replaced. Cash flows from depreciation,
24 particularly for non-profit companies, can be used to build up a plant replacement
25 reserve for these eventualities. Cash reserves can also be used to address unusual

1 events such as significant emergency repairs. If rates were lower as a result of
2 100 percent contributed plant, the Association (and its ratepayer members) would
3 not have this cash "cushion", so to speak. Non-profits, in particular, should have
4 an appropriate cash reserve since their ability to raise additional capital is limited.

5 **Q. IT APPEARS FROM YOUR PROFORMA SCHEDULE C-1 THAT**
6 **OPERATING EXPENSES INCREASE WITHOUT THE GOLF COURSE**
7 **PRESENT?**

8 **A.** That's correct. If the golf course is no longer there, ICR customers will need to
9 pay the power costs that are currently being paid for by TR Golf and Harvard.

10 **Q. WHAT IS THE NET IMPACT ON THE ICR OPERATING INCOME**
11 **WITHOUT THE GOLF COURSE?**

12 **A.** Operating income drops from a negative \$35,058 to a negative \$97,546 - a
13 reduction in operating income of \$62,488. In order to achieve the same operating
14 income as proposed in the instant case, a \$151,183 increase is required compare to
15 the \$88,547 increase proposed by the Association in the instant case.

16 **VI. RESPONSE TO THE DIRECT TESTIMONY OF DAYNE TAYLOR**

17 **Q. PLEASE RESPOND TO MR. TAYLOR'S RECOMMENDATION TO**
18 **CREATE TWO STAND-ALONE SYSTEMS: ONE FOR THE GOLF**
19 **COURSE AND ONE FOR THE ICR CUSTOMERS.**

20 **Q.** Mr. Taylor seems to make this recommendation on the belief that by creating two
21 stand-alone systems, the operating and maintenance and depreciation obligations
22 to the residential customers would be considerably less. *See* Direct testimony of
23 Dayne Taylor ("Taylor Dt.") at Recommendations. As my analysis of the
24 revenue requirement without the golf course shows, operating expenses would
25 increase, not decrease. Even if potential "over sizing" of the water system exists,

1 the impact on operating expense is small. As the cost of service study shows, the
2 estimated impact is less than \$3,200 annually. Even if this amount is taken into
3 consideration, operating expenses (including depreciation) would increase, not
4 decrease.

5 **Q. PLEASE RESPOND TO MR. TAYLOR'S TESTIMONY ON PAGE 3, IN**
6 **WHICH HE ASSERTS THAT LOWER "RATES" ARE CHARGED TO**
7 **THE GOLF COURSE THAN TO THE RESIDENTIAL CUSTOMERS.**

8 A. Putting aside the fact that TR Golf and Harvard are not customers of ICR, the cost
9 of service study demonstrates that TR Golf and Harvard are paying significantly
10 more than their cost of service. In fact, residential customers are being subsidized
11 by both the 2 inch meter size and golf course 6 inch meter. Even if TR Golf and
12 Harvard were to be considered customers, based on the cost of service study, my
13 recommendation would be that they not be charged the same rates as residential
14 customers. In fact, I would recommend rates for the golf course that are designed
15 to recover the cost of service. Thus, no subsidization would occur under the new
16 rate design in order to equitable to all classes of customers. This in turn would
17 mean that residential customers pay more and the golf course less under a fair and
18 equitable rate design. I have previously discussed a single tier rate design which
19 would maintain the current level of subsidization afforded to residential customers
20 by the golf course on pages 28 and 29 of my testimony. If all classes of customers
21 were to contribute equally (no subsidization), the golf course would pay lower
22 rates, while the 5/8 inch meter (residential class) would pay higher rates.

23 **Q. HAVE LARGE VOLUME USERS LIKE GOLF COURSES BEEN**
24 **AFFORDED RATES DIFFERENT THAN RESIDENTIAL CUSTOMERS**
25 **BY THIS COMMISSION?**

1 A. Yes. An example is Chaparral City Water Company. In Decision 68176
2 (September 30, 2005), the irrigation/bulk water commodity rates were much lower
3 than the commodity rates for residential customers. In Decision 68176, the
4 irrigation/bulk commodity rate approved was \$1.56 per 1,000 gallons. This rate
5 applied to all gallons sold. The commodity rates for the residential class
6 customers (3/4 inch meter) were \$1.68, \$2.52, and \$3.03 per 1,000 gallons for the
7 first, second and third tiers, respectively.

8 **Q. IF THE GOLF COURSE WERE TO PAY TARIFF RATES WOULD YOU**
9 **RECOMMEND THE GOLF COURSE PAY THE SAME COMMODITY**
10 **RATES AS THE RESIDENTIAL CUSTOMERS?**

11 A. No. The cost of service study already demonstrates that the golf course is
12 subsidizing the residential class (5/8 inch meter). If the golf course paid
13 residential rates, the residential class would be even more subsidized than it
14 already is. Further, if TR Golf were to be charged the proposed rates in the
15 instant case, the revenues provided to ICR would, at a minimum, increase four-
16 fold to nearly \$240,000 annually. The increase to the golf course may have the
17 unintended consequences, such as a protracted and costly legal battle to unravel
18 the Well Agreement and much higher rates to ICR customers in the future if the
19 golf course leaves the system - as my analysis of the revenue requirement without
20 the golf course demonstrates.

21 **Q. HOW DID YOU COMPUTE THE \$240,000?**

22 A. I assumed the golf course would pay the \$1,310 monthly minimum. Annually,
23 this is \$15,720. The first block revenues (425,000 gallons) would be computed as
24 12 months times 425 (thousand gallons) times the proposed commodity rate of
25 \$3.834 equaling \$19,553. The second block revenues would be computed as

1 50,878 (thousand gallons) annual gallons from the Association owned well less the
2 first block gallons of 5,400 (thousand gallons) times the second tier commodity
3 rate of \$4,454 equaling \$202,559. Together the revenues equal \$237,832
4 (\$15,720 + \$19,533 + \$202,559), nearly \$240,000. My computation does not
5 include wheeling charges for the balance of the water from the other two
6 production wells delivered to the golf course and construction water.

7 **Q. PLEASE CONTINUE.**

8 A. Putting aside the further subsidization of the residential class if proposed rates are
9 used, an unintended consequence of such an increase would be that the golf course
10 leaves the system, no longer providing current subsidization to residential
11 customers. As I will discuss, my analysis of the revenue requirement without the
12 golf course shows that residential customers would see a nearly 70 percent
13 increase rather than the 33 percent increase proposed in the instant case. In
14 addition, in my non-legal opinion, the Association may face significant legal costs
15 to sever the Well Agreement – costs which it cannot afford.

16 **Q. WHAT WOULD HAPPEN IF THE COMMISSION IMPUTES REVENUES**
17 **FROM THE GOLF COURSE TO ICR AT THE PROPOSED RATES FOR**
18 **ICR CUSTOMERS AND THE ASSOCIATION DOES NOT RECOVER**
19 **THOSE REVENUES?**

20 A. The revenues produced by the imputed rates would be a fiction. This will have
21 serious financial consequences to the Association. Ultimately, the member-
22 customers of ICR will suffer.

23 **Q. BASED ON YOUR TWO ANALYSES (THE COST OF SERVICE STUDY**
24 **AND THE ANALYSIS OF THE REVENUE REQUIREMENT WITHOUT**
25 **THE GOLF COURSE), DO ICR CUSTOMERS BENEFIT FINANCIALLY**

1 **FROM THE WELL AGREEMENT WITH TR GOLF AND HARVARD?**

2 A. Yes. Assuming the Well Agreement remains in place and the same level of
3 revenues provided during the Test Year are provided to the Association in the
4 future, ICR customers will benefit.

5 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

6 A. Yes.

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SUPPLEMENTAL REBUTTAL

EXHIBIT 1

WELL AGREEMENT

THIS WELL AGREEMENT (this "Agreement") is made this 25th day of February, 2003 by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer"), and TALKING ROCK GOLF, L.L.C., an Arizona limited liability company ("Talking Rock Golf") for the purposes and considerations hereinafter set forth.

RECITALS

A. Developer is the Second Beneficiary under the First American Title Insurance Agency of Yavapai, Inc. Trust No. 4750, which trust owns approximately 3,470 acres of real property situated in Yavapai County, Arizona, more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"). Developer is authorized to obtain water and wastewater utility services for the Property. A portion of the Property, approximately 400 acres, was previously located within Utility's Certificate of Convenience and Necessity ("CC&N") as shown in the map attached hereto as Exhibit "B" and incorporated herein by this reference. Until recently, the remainder of the Property, approximately 3,070 acres (the "Extension Area"), as shown in Exhibit "B," was not located in the certificated service area of the Utility or of any other certificated water utility provider or in the service area of any municipal water utility service provider. The majority of the Property, approximately 2,500 acres, is located in an area eligible for membership in Utility pursuant to Utility's By-Laws.

B. Utility is a public service corporation as defined in Article XV, Section 2 of the Arizona Constitution and, as such, is regulated by the Arizona Corporation Commission ("Commission"). Utility has been granted a CC&N by the Commission authorizing Utility to provide water utility services.

C. Developer is developing a residential community at the Property to be known as the Talking Rock Ranch that will contain approximately 1627 residential dwellings, certain common areas and a ranch compound with a clubhouse, swimming pool, tennis courts and a health and fitness center. Developer requested that water utility service be extended and provided to the Property by Utility in furtherance of Developer's planned development of the Property. Pursuant to that Main Extension Agreement (Water Service) dated March 5, 2001, between Utility and Developer (the "Main Extension Agreement"), Utility sought approval from the Commission to extend Utilities' CC&N to include the Extension Area and to take all other actions and obtain other government approvals as necessary in connection with the extension of Utility's CC&N to include the Extension Area. Thereafter, Utility is willing to extend water utility service to the Property in accordance with the terms and conditions set forth in the Main Extension Agreement and in accordance with relevant law, including the rules and regulations of the Commission.

D. Pursuant to the Main Extension Agreement, Developer is obligated to construct and install certain Facilities, as defined in the Main Extension Agreement, including without limitation an off-site water transmission main (the "Off-Site Main") described in Exhibit "C" to the Main Extension Agreement.

E. On January 15, 2002, the Commission issued Decision No. 64630, extending Utilities' CC&N to include the Extension Area, subject to certain conditions stated in the Decision. One condition stated in Decision No. 64630 is that Developer should advance to Utility the wells Developer has drilled for the purpose of providing water to the Property.

F. Pursuant to that First Amendment to Main Extension Agreement to be executed by the parties concurrently with their execution of this Agreement (the "First Amendment"), the Facilities to be constructed and installed by Developer will include the Production Wells, as herein defined. Upon the Commission's approval of the First Amendment, the term 'Main Extension Agreement' used herein shall mean the Main Extension Agreement as modified by the First Amendment.

G. Talking Rock Golf has constructed an 18-hole golf course at the Property, with a driving range, other practice facilities, storage lakes and related amenities and facilities (the "Golf Course"). Except as provided in the Main Extension Agreement, Talking Rock Golf will arrange for its own supply of water to the Golf Course for construction of the Golf Course, and for landscape irrigation, lake fill and other nonpotable purposes, as provided in this Agreement.

H. Developer has drilled two wells on the real property described on Exhibit "D" (the "Wellsite"). Talking Rock Golf owns the Wellsite. Pump tests of the wells indicate that the wells at the Wellsite have the potential to produce an adequate quality and quantity of water for Utility to use as a domestic water supply for the Property. In addition, pump tests indicate that wells at the Wellsite and at property adjacent to the Wellsite have the potential to produce an adequate quality and quantity of water to supply construction water and to provide the Golf Course with water for landscape irrigation and lake fill purposes.

I. Utility wishes to use water from wells drilled at the Wellsite as a domestic water supply for the Property, and Developer is willing to convey certain wells at the Wellsite to Utility for use as the domestic water supply for the Property, on the terms, conditions and restrictions contained herein.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENTS

1. Construction of Wells by Developer.

(a) Developer has caused two wells to be drilled, constructed, installed and equipped at the Wellsite, as depicted on Exhibit "E." Production Well 2 and Production Well 3, both as depicted on Exhibit "E", are sometimes referred to herein, individually, as a "Production Well," and, together, as the "Production Wells." In addition, Developer has caused a third well to be drilled, constructed, installed and equipped at property located immediately adjacent to the Wellsite (the "Adjacent Property"), which well is depicted on Exhibit "E" as Production Well 1. Well pump tests conducted by Southwest Ground-water Consultants, Inc. indicate that Production Well 2 has an estimated production capacity of 530 gallons per minute ("gpm"), assuming pumping for 12 hours per day independent of Production Well 1 and

Production Well 3, and Production Well 3 has an estimated production capacity of 430 gpm, assuming pumping for 12 hours per day, independent of Production Well 1 and Production Well 2. Developer has provided to Utility a copy of a letter dated October 31, 2002 summarizing the pump tests run by Southwest Ground-water Consultants, Inc. on Production Well 2 and Production Well 3.

(b) Developer obtained approval to construct the Production Wells from all agencies having regulatory jurisdiction, including Yavapai County Environmental Services Department and Arizona Department of Environmental Quality ("ADEQ"). Developer has caused Production Well 2 and Production Well 3 to be drilled, constructed, installed and equipped at the Wellsite in substantial accordance with the design for the same approved by Yavapai County Environmental Services Department and ADEQ. Utility's engineers have tested and inspected Production Well 2 and Production Well 3. Based on that inspection and testing, Utility has requested several modifications to the equipment installed at the Production Wells as described in that letter to Shephard-Wesnitzer, Inc. from Dava and Associates dated June 19, 2002 (the "Well Modifications").

2. Transfer and Conveyance of Production Well 3. Immediately following the approval of the First Amendment by the Commission or the Commission staff (as necessary) and the approval by the Commission or the Commission staff (as necessary) of this Well Agreement, if such approval is required by the Commission, Developer will transfer and convey Production Well 3 to Utility, including all equipment, pumps, motors, valves, pipes, electrical system, and other appurtenances, by Bill of Sale in form attached as Exhibit "F," and on the terms and conditions stated in paragraph 4. In the Bill of Sale for Production Well 3, Developer will also transfer and convey to Utility the piping, valves and other facilities necessary to connect Production Well 3 to the Off-side Main (such piping, valves and other facilities being referred to herein as the "PW-3 Connection Facilities").

3. Transfer and Conveyance of Production Well 2. On or before the date that Utility provides water service to the 800th single-family residence at the Property, Talking Rock Golf will transfer and convey Production Well 2 to Utility, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances, by Bill of Sale in the form attached as Exhibit "F," and on the terms and conditions stated in paragraph 4. In the Bill of Sale for Production Well 2, Talking Rock Golf will also transfer and convey to Utility the piping, valves and other facilities necessary to connect Production Well 2 to the Off-Site Main (such piping, valves and other facilities being referred to herein as the "PW-2 Connection Facilities").

4. Terms and Conditions of Transfer and Conveyance. The transfer and conveyance of Production Well 2 and the transfer and conveyance of Production Well 3 shall each be on the following terms and conditions:

(a) Concurrently with the execution of the Bill of Sale for Production Well 3 and the execution of the Bill of Sale for Production Well 2, as the case may be, Talking Rock Golf will grant an easement to Utility over, under, upon and across the Wellsite, together with an access easement over and across the Wellsite and other property allowing ingress and egress to the Production Well then being conveyed from a public right-of-way, and a pipeline easement, if necessary, for the Off-Site Main or for the PW-3 Connection Facilities and the PW-2 Connection Facilities, in form attached as Exhibit "G" (each, an "Easement"). The Wellsite

and other property over which the Easement is granted is referred to herein as the "Easement Area".

(b) Each Production Well and the Easement therefor will be transferred, conveyed and granted subject to taxes and assessments not yet due and payable, and subject to the terms, limitations and conditions stated in this Well Agreement and all matters of record. Notwithstanding the foregoing, all monetary liens encumbering the Production Well then being transferred will be released at the time of the transfer and conveyance (other than liens for taxes and assessments not yet due and payable). Any monetary liens encumbering the Easement Area for a Production Well will be released at the time the Easement for the Production Well is granted, unless the holder of the monetary lien has consented to the Easement. At the time of the transfer, Developer will provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen with respect to the Production Well then being transferred have been paid and are fully satisfied. Without limiting the foregoing, Utility acknowledges and agrees to accept each Production Well and each Easement subject to the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land, L.L.C. dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which the Wellsite was conveyed to Talking Rock Land, L.L.C., an Arizona limited liability company, an affiliate of Developer ("Talking Rock Land").

(c) Prior to the transfer of a Production Well to Utility, Utility shall have its engineers test and inspect the Production Well then being transferred at reasonable times as determined by the parties. Following testing and inspection, Utility shall issue a written notice of acceptance of the Production Well then being transferred to Developer (as to Production Well 3) or to Talking Rock Golf (as to Production Well 2); provided, however, that (i) ADEQ has issued an approval of construction for the Production Well; (ii) the Production Well in question is reasonably acceptable to Utility; and (iii) all Well Modifications have been completed at the Production Well in question, to the reasonable satisfaction of Utility. Utility shall consider a Production Well to be reasonably acceptable to Utility under subparagraph (ii) above if the Production Well is in substantially the same condition as existed at Utility's earlier inspection and testing of the Production Well referred to in paragraph 1(b), except that the Well Modifications shall have been completed and except for ordinary wear and tear. At the time of the transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Production Well then being transferred, certified and sealed by Developer's engineer to be true and correct.

(d) Developer warrants that, upon transfer to Utility, Production Well 3 will be free from all defects and deficiencies in construction, materials and/or workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct Production Well 3, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. Talking Rock Golf warrants that, upon transfer to Utility, Production Well 2 will be free from all defects and deficiencies in construction, materials and/or workmanship for one (1) year from the date of Utility's acceptance of Production Well 2. During the warranty period, Developer, as to Production Well 3, and Talking Rock Golf, as to Production Well 2, agree to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Utility. Upon Utility's acceptance of a Production

Well, Developer shall assign any guaranties and warranties issued in connection with construction of that Production Well that are still in effect. Upon Utility's acceptance of a Production Well, Utility shall be deemed to have accepted that Production Well in an "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Each Production Well will be transferred, conveyed and granted without representation or warranty as to the quantity or quality of water that may be produced from the Production Well, either at the time of the conveyance or in the future.

(e) Without the express written consent of Developer and Talking Rock Golf, Utility shall not increase the production capacity of a Production Well transferred and conveyed by Developer to Utility beyond the production capacity of that Production Well identified in the Bill of Sale for that Production Well.

(f) This Agreement shall survive each transfer and conveyance of a Production Well and the grant of each Easement. All terms, conditions, covenants and restrictions pertaining to the use of the Production Wells contained in this Agreement shall continue in full force and effect after each such transfer, conveyance and grant. In particular, Utility will accept each Production Well transferred and conveyed to Utility subject to the production limitations stated in paragraph 12 and the limitations on location of use stated in paragraph 13.

5. Water Service. After Developer or Talking Rock Golf transfers and conveys a Production Well to Utility under paragraph 2 or paragraph 3, Utility will deliver water to the Property from the transferred and conveyed Production Well for the purpose of providing domestic water service to customers within the Property for all purposes, including common area landscape watering, but excluding (i) water service to the Golf Course for landscape irrigation and lake fill purposes at the Golf Course, until such time as Talking Rock Golf requests water service to the Golf Course pursuant to the Main Extension Agreement, and (ii) water service for construction purposes. All deliveries by Utility from the transferred and conveyed Production Well shall be subject to the terms, conditions, covenants and restrictions of this Agreement. This paragraph does not limit Utility's obligations under paragraphs 14 and 15 to allow Developer to use unused capacity in the transferred and conveyed Production Well for golf course irrigation and for construction purposes, as provided in those paragraphs.

6. Construction of Off-Site Transmission Main and Other Facilities. Developer has planned, designed, constructed and installed the Off-Site Main as provided in the Main Extension Agreement. The Off-Site Main extends from the Wellsite along the alignment shown on Exhibit "C" to a meter (the "Utility Meter") at that 300,000 gallon storage facility located at the Property approximately as shown on Exhibit "C." Developer has designed, constructed and installed a pump station, booster pumps and related infrastructure at the storage facility located at the Property and may plan, design, construct and install a second pump station located at the Property as provided in the Main Extension Agreement (the "Pump Station"). Upon the Developer's transfer and conveyance of Production Well 3, Developer will also transfer and convey to Utility the Off-Site Main, the 300,000-gallon storage facility and the Pump Station, including all equipment, valves, booster pumps, electrical systems and related infrastructure and appurtenances, by Bill of Sale in the form attached as Exhibit "H," and pursuant to the terms of the Main Extension Agreement. The Off-Site Main, the 300,000 gallon

storage facility, the Pump Station and all related infrastructure are referred to herein as the "Other Facilities."

7. Condition to Obligations. Developer's obligation to transfer and convey Production Well 3 to Utility, Talking Rock Golf's obligation to transfer and convey Production Well 2 to Utility and Utility's obligation to accept Production Well 2 and Production Well 3 are subject to the approval of the First Amendment by the Commission or the Commission staff (as necessary), and the approval of this Well Agreement by the Commission or the Commission staff (as necessary), if such approval is required by the Commission. In addition, Utility's obligation to accept Production Well 2 and Production Well 3 is subject to the condition that ADEQ has issued an approval of construction for the Production Well then being transferred. If the Commission or the Commission's staff determines that the First Amendment does not satisfy the conditions stated in Decision No. 64630, Developer and Utility will amend the First Amendment (and Developer, Talking Rock Golf and Utility will amend this Well Agreement, if necessary) to address the inadequacies of the First Amendment identified by the Commission or the Commission's staff.

8. Ownership and Operation by Developer Prior to Transfer. Until such time as Developer transfers and conveys Production Well 3, the PW-3 Connection Facilities and the Other Facilities to Utility pursuant to this Agreement (a) Developer shall own Production Well 3, the PW-3 Connection Facilities and the Other Facilities, and shall have the exclusive right to physical possession and control of, and the right of access to, Production Well 3, the PW-3 Connection Facilities and the Other Facilities; (b) Developer shall own the plans and specifications for Production Well 3, the PW-3 Connection Facilities and the Other Facilities, and any guaranties or warranties issued in connection therewith; (c) Developer shall manage and operate Production Well 3, the PW-3 Connection Facilities and the Other Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; provided, however, that Developer shall have no obligation to test water pumped from Production Well 3 or to treat water pumped from Production Well 3; (d) Developer shall maintain and repair Production Well 3, the PW-3 Connection Facilities and the Other Facilities as necessary to keep Production Well 3 and the Other Facilities in good condition and repair; and (e) Developer shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 3, the PW-3 Connection Facilities and the Other Facilities. Developer may delegate its obligations under this paragraph to a contractor that is experienced in the operation, maintenance and repair of water systems and has been approved by Utility, which approval will not be unreasonably withheld or delayed, provided, however, that such delegation shall not release Developer from its obligations under this paragraph.

9. Ownership and Operation by Talking Rock Golf Prior to Transfer. Until such time as Talking Rock Golf transfers and conveys Production Well 2 and the PW-2 Connection Facilities to Utility pursuant to this Agreement (a) Talking Rock Golf shall own Production Well 2 and the PW-2 Connection Facilities, and shall have the exclusive right to physical possession and control of, and the right of access to, Production Well 2 and the PW-2 Connection Facilities; (b) Talking Rock Golf shall own the plans and specifications for Production Well 2 and the PW-2 Connection Facilities, and any guaranties or warranties issued in connection therewith; (c) Talking Rock Golf shall manage and operate Production Well 2 and the PW-2 Connection Facilities in accordance with standard utility practices and in accordance

with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; provided, however, that Talking Rock Golf shall have no obligation to test water pumped from Production Well 2 or to treat water pumped from Production Well 2; (d) Talking Rock Golf shall maintain and repair Production Well 2 and the PW-2 Connection Facilities as necessary to keep Production Well 2 and the PW-2 Connection Facilities in good condition and repair; and (e) Talking Rock Golf shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 2 and the PW-2 Connection Facilities. Talking Rock Golf may delegate its obligations under this paragraph to a contractor that is experienced in the operation, maintenance and repair of water systems and has been approved by Utility, which approval will not be unreasonably withheld or delayed, provided, however, that such delegation shall not release Talking Rock Golf from its obligations under this paragraph. Until such time as Talking Rock Golf transfers and conveys Production Well 2 to Utility, Production Well 2 shall be considered a Golf Course Well, as provided in paragraph 14.

10. Ownership and Operation After Transfer.

(a) Following the transfer and conveyance of Production Well 3, the PW-3 Connection Facilities and the Other Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or in the Easement, (i) Utility shall own Production Well 3, the Other Facilities, and the PW-3 Connection Facilities, and shall have the right to physical possession and control of, and the right of access to Production Well 3, the Other Facilities, and the PW-3 Connection Facilities; (ii) Utility shall manage and operate Production Well 3, the Other Facilities and the PW-3 Connection Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair Production Well 3, the Other Facilities and the PW-3 Connection Facilities as necessary to keep Production Well 3, the Other Facilities and the PW-3 Connection Facilities in good condition and repair; and (iv) Utility shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 3, the Other Facilities and the PW-3 Connection Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations under this paragraph to another contractor experienced in the operation, maintenance and repair of water systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

(b) Following the transfer and conveyance of Production Well 2 and the PW-2 Connection Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or in the Easement, (i) Utility shall own Production Well 2 and the PW-2 Connection Facilities, and shall have the right to physical possession and control of, and the right of access to Production Well 2 and the PW-2 Connection Facilities; (ii) Utility shall manage and operate Production Well and the PW-2 Connection Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair Production Well 2 and the PW-2 Connection Facilities as necessary to keep Production Well 2 and the PW-2 Connection Facilities in good condition and repair; and (iv) Utility shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 2 and the PW-2 Connection Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations

under this paragraph to another contractor experienced in the operation, maintenance and repair of water systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

11. Testing; Treatment; Chlorination Facilities.

(a) Water quality testing at Production Well 1, Production Well 2 and Production Well 3 indicates that the water pumped from all three wells may be suitable for domestic water purposes without additional treatment. Notwithstanding the groundwater quality, Utility has requested, and Talking Rock Golf has designed and is willing to install certain facilities at the Wellsite having sufficient capacity to treat all water withdrawn from the Production Wells (the "Chlorination Facilities"). The Chlorination Facilities will consist of, collectively, (i) three chlorinators and three injection pumps, solution tank, control systems and other equipment and materials as provided in the approved design for the Chlorination Facilities described in paragraph 11(b); (ii) a small building located at the Wellsite as depicted on Exhibit "E" that will enclose the chlorinators, injection pumps, solution tank, control systems and other equipment; (iii) three 3/4-inch diameter pipelines that will each convey chlorine solution from a chlorinator to one of the Production Wells (each, a "Chlorine Pipeline"); and (iv) connections, valves and other equipment necessary to connect each Chlorine Pipeline to a Production Well.

(b) Talking Rock Golf will cause the installation of the Chlorination Facilities, as follows:

(i) The design of the Chlorination Facilities has been approved by ADEQ, the Yavapai County Environmental Services Department and Utility. On or before ninety (90) days after the date hereof, Talking Rock Golf will cause the Chlorination Facilities to be installed at the Wellsite in substantial accordance with the design for the same approved by Utility and the pertinent regulatory agencies. If Talking Rock Golf transfers and conveys Production Well 3 to Utility prior to Talking Rock Golf completing the installation of the Chlorination Pipeline for Production Well 3, Utility will allow Talking Rock Golf, its agents and contractors, access to Production Well 3 at times mutually acceptable to Utility and Talking Rock Golf for the purpose of connecting said Chlorination Pipeline to Production Well 3.

(ii) Following installation of the Chlorination Facilities, Utility shall have its engineers test and inspect the Chlorination Facilities at such reasonable times as determined by the parties. Following such testing and inspection, Utility shall issue a written notice of acceptance of the Chlorination Facilities, provided, however, that ADEQ has issued an approval of construction for the Chlorination Facilities, and the Chlorination Facilities are reasonably acceptable to Utility. Utility shall consider the Chlorination Facilities reasonably acceptable to Utility if they have been installed in substantial compliance with the design for the same approved by Utility and by the pertinent regulatory agencies.

(iii) Immediately following the issuance by Utility of a notice of acceptance for the Chlorination Facilities, Talking Rock Golf will transfer and convey the Chlorination Facilities to Utility by Bill of Sale substantially in the form of attached Exhibit "I." Upon delivery of the Bill of Sale for the Chlorination Facilities, Utility shall be deemed to have accepted the Chlorination Facilities in an "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship

provided in the Bill of Sale. The parties acknowledge that the Bill of Sale for the Chlorination Facilities may be delivered by Talking Rock Golf separate from and after the delivery by Talking Rock Golf of the Bill of Sale for Production Well 3 pursuant to paragraph 2 hereof.

(iv) Concurrently with the execution of the Bill of Sale for the Chlorination Facilities, Talking Rock Golf will grant an easement to Utility over, under, upon and across the Wellsite containing the building that is part of the Chlorination Facilities, together with an access easement over and across the Wellsite and other property, allowing ingress and egress to said building from a public right-of-way, and together with pipeline easements for the Chlorination Pipelines substantially in the form attached as Exhibit "J" (the "Chlorination Facilities Easement").

(v) The Chlorination Facilities and the Chlorination Facilities Easement will be transferred, conveyed and granted subject to taxes and assessments not yet due and payable, and subject to the terms, limitations and conditions stated in this Well Agreement and all matters of record. Notwithstanding the foregoing, all monetary liens encumbering the Chlorination Facilities will be released at the time of the transfer and conveyance (other than liens for taxes and assessments not yet due and payable). Any monetary liens encumbering the easement area described in the Chlorination Facilities Easement will be released at the time the Chlorination Facilities Easement is granted, unless the holder of the monetary lien has consented to the Chlorination Facilities Easement. At the time of the transfer, Talking Rock Golf will provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen with respect to the Chlorination Facilities have been paid and are fully satisfied.

(vi) Following the transfer and conveyance of Chlorination Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or the Chlorination Facilities Easement, (i) Utility shall own the Chlorination Facilities, and shall have the right to physical possession and control of, and the right of access to the Chlorination Facilities; (ii) Utility shall manage and operate the Chlorination Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair the Chlorination Facilities as necessary to keep the Chlorination Facilities in good condition and repair; and (iv) Utility shall be responsible for all costs and expenses of operating, managing, maintaining, repairing and replacing the Chlorination Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations under this paragraph to another contractor experienced in the operation, maintenance and repair of water treatment systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

(c) Following the transfer and conveyance of Production Well 3 to Utility, Utility shall perform all water quality testing and monitoring of water delivered to the Utility Meter as required by all governmental authorities having jurisdiction. Utility will provide copies of water quality test results to Developer. Talking Rock Golf will grant Utility access to Production Well 3, Production Well 2 and Production Well 1 (as herein defined) to permit water quality monitoring and testing by Utility as provided in the Easement.

(d) Utility shall treat all water delivered to the Utility Meter as

necessary to meet water quality standards imposed by all regulatory agencies having jurisdiction, as such standards may change from time to time. ALL WATER PUMPED FROM PRODUCTION WELL 3, PRODUCTION WELL 2 AND PRODUCTION WELL 1 SHALL BE ACCEPTED BY UTILITY "AS IS," AND NEITHER DEVELOPER NOR TALKING ROCK GOLF MAKE ANY REPRESENTATIONS OR WARRANTIES OF ANY NATURE REGARDING, NOR SHALL DEVELOPER OR TALKING ROCK GOLF BE IN ANY WAY RESPONSIBLE FOR, THE QUALITY OR QUANTITY OF WATER AVAILABLE FROM PRODUCTION WELL 3, PRODUCTION WELL 2 OR PRODUCTION WELL 1, EITHER NOW OR IN THE FUTURE.

(e) Utility shall be solely responsible for (i) the planning, design, installation and construction of any and all parts, components, equipment or materials installed at any location for the treatment of water pumped from Production Well 3, Production Well 2 or Production Well 1, excluding the Chlorination Facilities (the "Additional Treatment Facilities"), and (ii) the planning, design, installation and construction of the piping, valves and other facilities necessary to connect Production Well 1, Production Well 2 or Production Well 3 to any Additional Treatment Facilities (the "Additional Connection Facilities"). Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to the planning, design, installation or construction of the Additional Treatment Facilities or the Additional Connection Facilities, or any costs or expenses whatsoever related to the replacement of any of the Chlorination Facilities, the Additional Treatment Facilities (if any), or the Additional Connection Facilities (if any). Talking Rock Golf will allow Utility to construct and install any Additional Treatment Facilities or Additional Connection Facilities at the Wellsite and at the Adjacent Property and to operate, maintain, repair and replace the same, subject to the terms of this Agreement, the Easement and the Chlorination Facilities Easement; provided, however, that Utility shall comply with all fencing and landscaping requirements for the Additional Treatment Facilities imposed by Talking Rock Golf or Developer, and shall submit the plans for the Additional Treatment Facilities and the Additional Connection Facilities to Talking Rock Golf and Developer for their approval, which will not be unreasonably withheld or delayed, all as provided in the Easement and the Chlorination Facilities Easement. If the Additional Treatment Facilities are for Production Well 1 and must be located on the Adjacent Property as reasonably determined by Utility, Talking Rock Golf will grant an easement to Utility on, over, across and upon the Adjacent Property for such Additional Treatment Facilities in form reasonably acceptable to Utility and Talking Rock Golf. The term "Treatment Facilities" when used in this Well Agreement means the Chlorination Facilities, any Additional Treatment Facilities and any Additional Connection Facilities.

(f) Promptly after Utility determines that Additional Treatment Facilities are necessary and that Utility will install the Additional Treatment Facilities at the Wellsite and/or at the Adjacent Property, Utility will notify Developer and Talking Rock Golf of Utility's determination. Thereafter, Utility will design the Additional Treatment Facilities as required under this paragraph and will submit the final plans and specifications to Developer and Talking Rock Golf for approval, as required under this paragraph. Utility will also submit to Developer and Talking Rock Golf the final plans and specifications for any Additional Connection Facilities necessary to connect the Production Wells to the Additional Treatment Facilities.

12. Maximum Amount; Flow Rate. In any calendar year, the maximum total

amount of water Utility may withdraw from the Production Wells transferred and conveyed to Utility shall be 554 acre-feet ("Maximum Amount"). The Maximum Amount is based on the expected annual domestic demand for water at the Property at full-build, plus twenty-five percent (25%). In any calendar year, Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount. The Maximum Amount shall not include water withdrawn from a Production Well and wheeled by Utility to the Golf Course pursuant to paragraph 14 and shall not include water withdrawn from a Production Well and wheeled by Utility to the Property for construction purposes pursuant to paragraph 15. The maximum flow rate measured at the Utility Meter that may be utilized by Utility for domestic water purposes (the "Maximum Flow Rate") shall be the lesser of (a) the actual combined production capacity of the Production Wells transferred and conveyed to Utility at the particular time in question under customary operating parameters, or (b) 687.5 gpm, which is based on the peak daily demand for water at the Property at full buildout, plus twenty-five (25%). The Maximum Flow Rate shall not include the flow rate of water withdrawn from a Golf Course Well (herein defined) or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to the Golf Course Meter pursuant to paragraph 14 or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to construction meters at the Property pursuant to paragraph 15. Utility shall have absolutely no right whatsoever to withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount or to utilize water delivered to the Utility Meter for domestic water purposes at a rate in excess of the Maximum Flow Rate.

13. Location of Use. Utility shall use all water withdrawn from the Production Wells transferred and conveyed to Utility (a) to serve customers located within the Property; (b) to satisfy Talking Rock Golf's request for water for the Golf Course, to the extent water is wheeled to the Golf Course from a Production Well pursuant to paragraph 14, and (c) to satisfy Developer's request for construction water wheeled under paragraph 15. Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility for any other purpose, or deliver such water to any other location, or serve such water to any customers located outside the Property.

14. Golf Course Water; Wheeling. Utility acknowledges that Talking Rock Golf has constructed the Golf Course at the Property. Except as provided in the Main Extension Agreement, Talking Rock Golf will provide water to the Golf Course, as follows:

(a) Developer has caused Production Well 1 to be constructed and installed at the Adjacent Property, having an estimated production rate of 525 gpm, assuming pumping for 12 hours per day independent of Production Well 2 and Production Well 3. Developer has conveyed Production Well 1 and Production Well 2 to Talking Rock Golf, along with the PW-2 Connection Facilities and the piping, valves and other facilities necessary to connect Production Well 1 to the Off-Site Main (the "PW-1 Connection Facilities"). Following the conveyance of Production Well 3 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 and Production Well 2 to the Golf Course to satisfy the landscape irrigation and lake fill demands at the Golf Course. Following the conveyance of Production Well 2 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 to satisfy the landscape irrigation and lake fill demands at the Golf Course. The terms "landscape irrigation" and "golf course irrigation" when used in this Well Agreement mean the irrigation of any and all

landscaping located anywhere on the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Golf Course Wells" when used in this Well Agreement (i) means Production Well 1 and Production Well 2, until such time as Talking Rock Golf conveys Production Well 2 to Utility pursuant to this Well Agreement, and (ii), after Talking Rock Golf conveys Production Well 2 to Utility, means Production Well 1.

(b) Utility acknowledges that Developer had installed the PW-1 Connection Facilities, at the cost and expense of Developer. Developer submitted the design of the PW-1 Connection Facilities to Utility for its approval, and Utility approved said design. Developer has caused PW-1 Connection Facilities to be constructed and installed in substantial accordance with the design for the same approved by Utility.

(c) Talking Rock Golf shall manage, operate, maintain, repair and replace Production Well 1 and the PW-1 Connection Facilities at its sole cost and expense. Talking Rock Golf shall manage, operate, maintain, repair and replace Production Well 2 and the PW-2 Connection Facilities, at its sole cost and expense, until Talking Rock Golf conveys Production Well 2 and the PW-2 Connection Facilities to Utility. Talking Rock Golf shall operate, manage, maintain and repair the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities in accordance with standard utility practice applicable to domestic water systems and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems ("Applicable Law"); provided, however, that Talking Rock Golf shall have no obligation to test water pumped from a Golf Course Well or to treat water pumped from a Golf Course Well. Utility and Talking Rock Golf will periodically (not less than once per calendar year) meet and review standard utility practices and the Applicable Law pertinent to the operation, management, maintenance and repair of domestic wells and domestic water delivery systems. Talking Rock Golf will utilize only personnel familiar with said standard utility practices and the Applicable Law in the operation, management, maintenance and repair of the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities. Utility may, at its request and from time to time, observe and supervise Talking Rock Golf's operation, management, maintenance and repair of the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities to ensure compliance with this paragraph.

(d) (i) Utility, Developer and Talking Rock Golf acknowledge and agree that: (A) the total estimated production capacity of Production Well 2 and Production Well 3 is greater than the Maximum Flow Rate of 687.5 gpm; (B) Utility will not need to use the entire production capacity of Production Well 2 and Production Well 3 (as estimated) in order to provide domestic water service to all customers within the Property; (C) even after full build-out of the Property, during some hours of the day, there will be unused production capacity in the Production Wells transferred and conveyed to Utility pursuant to this Agreement. For example, and not by way of limitation, after full build-out of the Property, unused production capacity in the Production Wells transferred and conveyed to Utility is likely to be available from approximately 10 p.m. of each day to approximately 6 a.m. of the following day.

(ii) Upon request by Talking Rock Golf, Utility will allow Talking Rock Golf to use the entire unused production capacity of the transferred and conveyed Production Wells available from time to time to provide water to the Golf Course for golf course

irrigation and lake-fill purposes. Utility shall reasonably determine the amount of the unused production capacity of the Production Wells transferred and conveyed to Utility and the hours during which such unused capacity exists. Utility will operate the transferred and conveyed Production Wells, as agent for Talking Rock Golf, to allow water from the transferred and conveyed Production Wells to be delivered to the Golf Course for landscape irrigation and lake fill purposes during the hours that unused production capacity is available at the Production Wells and up to the entire unused production capacity so available. Talking Rock Golf may request the use of the unused production capacity at any and all Production Wells transferred and conveyed to Utility. Talking Rock Golf may request the use of the unused production capacity at a Production Well even if Talking Rock Golf is not using the entire production capacity of the Golf Course Wells. While a Production Well is used for both domestic water service and for golf course irrigation and lake-fill purposes at the Golf Course, Talking Rock Golf and Utility will share the costs of operation, maintenance and repair of the Production Well as provided in paragraph 18(c).

(iii) Utility shall charge Talking Rock Golf a Wheeling Charge for the amount of water withdrawn from the transferred and conveyed Production Wells and delivered to the Golf Course pursuant to this subparagraph, billed and paid as provided in subparagraph 14(f) and paragraph 19. Utility's willingness to allow Talking Rock Golf to use the unused capacity in the Production Wells transferred and conveyed to Utility and to operate the Production Wells transferred and conveyed to Utility for the benefit of Talking Rock Golf is in consideration of Developer's installation of the Production Wells and Developer's and Talking Rock Golf's willingness to convey Production Well 3 and Production Well 2 entirely to Utility, rather than conveying an undivided tenant-in-common interest in the Production Wells to Utility.

(e) Except as provided below, following the transfer and conveyance of Production Well 3 to Utility pursuant to paragraph 3, Utility shall wheel up to 400 acre-feet per year of water for golf course irrigation and lake-fill purposes through the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property to a water meter installed by Developer at the golf course storage lake (the "Golf Course Meter"). Notwithstanding the foregoing, during calendar year 2003, Utility shall wheel up to 518 acre feet of water to the Golf Course Meter for golf course irrigation and lake-fill purposes, Utility acknowledging that such greater amount of water is necessary for landscape grow-in purposes. The wheeled water shall include water produced at the Golf Course Wells and water produced at the Production Wells transferred and conveyed to Utility that have unused production capacity as provided in paragraph 14(d). The Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property have been and will be sized to accommodate the peak water deliveries for the Golf Course and for domestic water service to customers within the Property. Utility will operate the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property, as agent for Talking Rock Golf, to allow water to be wheeled from the Production Wells transferred and conveyed to Utility and the Golf Course Wells for landscape irrigation and lake-fill purposes at the Golf Course as provided in this paragraph 14. Except during emergency situations described in paragraph 14(i), the flow rate as measured at the Utility Meter of the water that Utility must wheel through the Off-Site Main for golf course irrigation and lake-fill purposes and the flow rate as measured at the Golf Course Meter of the water that Utility must wheel through the Pump Station and the storage and domestic water delivery system of the Property for golf course irrigation and lake-fill purposes shall be the lesser of (i) the flow rate requested by Talking Rock

Golf, or (ii) the actual production rate of the Golf Course Wells at the particular time in question, plus the combined unused production capacity of the transferred and conveyed Production Wells at the particular time in question, or (iv) 925 gpm. Utility acknowledges and agrees that the transfer and conveyance of the Chlorination Facilities may occur after Utility has commenced wheeling water from the Golf Course Wells to the Golf Course as provided herein.

(f) In consideration of the agreement of Utility to wheel water to the Golf Course, Talking Rock Golf will pay Utility \$10.00 per acre foot of water (the "Wheeling Charge") wheeled from the transferred and conveyed Production Wells or the Golf Course Wells through the Off-Site Main, the Pump Station and the Property's storage and domestic delivery system to the Golf Course, as measured at the Golf Course Meter. The Wheeling Charge shall increase as of January 1, 2004 and on January 1 of each calendar year thereafter in accordance with the percentage increase in the Consumer Price Index as developed by the United States Bureau of Labor Statistics (Consumer Price Index for Urban Consumers (U), 1982-1984 = 100, U.S. City Average) (the "CPI") as of the relevant Adjustment Date over the CPI as of January 1, 2001 (such increase is referred to as the "Inflation Adjustment"). The CPI will be determined as of September 30 of each year (the "Adjustment Date"), and Talking Rock Golf will notify Utility, prior to December 1 of that year, of Talking Rock Golf's calculation of the Inflation Adjustment and the applicable price increase, if any, to be implemented as of the ensuing January 1. If the CPI ceases to be published or available, Talking Rock Golf may select another index that, in Talking Rock Golf's reasonable discretion, approximates the CPI, and such index shall thereafter be used instead of the CPI in calculating the applicable Inflation Adjustment under this paragraph. If the CPI remains the same or if the CPI decreases for any given year, the Wheeling Charge shall remain unchanged from the preceding year.

(g) On a monthly basis, Talking Rock Golf will pay Utility the Wheeling Charge for the amount of water wheeled from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course during the immediately-preceding billing period. Each said payment shall be paid within fifteen (15) days after delivery of the calculation of the Wheeling Charge pursuant to paragraph 19. If Talking Rock Golf fails to timely make a payment of a Wheeling Charge under the subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(h) Other than the payment of the Wheeling Charge and the amounts due under paragraph 18, neither Developer, nor Talking Rock Golf, nor any successor or assign of either of them shall have any obligation to pay for the delivery of water wheeled to the Golf Course pursuant to this Agreement, or to pay for the operation, maintenance, repair or replacement of any facilities used in the wheeling of water to the Golf Course pursuant to this Well Agreement, including the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and delivery system at the Property.

(i) Utility acknowledges and agrees that Talking Rock Golf may withdraw water from the Golf Course Wells in any quantity and deliver such water to the Golf Course for golf course irrigation and lake fill purposes, and this Agreement shall not, in any way, affect or limit Talking Rock Golf's right to so withdraw and deliver water. The foregoing

sentence does not modify the limitations on the amount of water that Utility is obligated to wheel under paragraph 14(e), or the maximum flow rate for wheeled water.

(j) In the event that an emergency causes a reduction in the transmission capacity of the Off-Site Main, or a reduction in the treatment capacity of the Treatment Facilities, or a reduction in the storage or delivery capacity of the Pump Station or any other component of the domestic water system at the Property and such reduction causes a shortage of water for domestic delivery to Utility customers located at the Property, (i) Utility may use so much of the transmission capacity of the Off-Site Main or the treatment capacity of the Treatment Facilities, or the storage or delivery capacity of the Pump Station and all other components of the domestic water system at the Property (as the case may be) as is necessary to satisfy the domestic water demands of Utility's customers located at the Property, for so long as the emergency exists, and (ii) Utility will use the remaining transmission capacity of the Off-Site Main, or the remaining treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the Pump Station and the other components of the domestic water system at the Property (as the case may be) to wheel water for golf course irrigation pursuant to this paragraph. Utility will immediately take such actions as are necessary to restore the transmission capacity of the Off-Site Main, or the treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the domestic water system at the Property (as the case may be) to the capacity that existing prior to the occurrence of the emergency.

15. Construction Water; Wheeling. Developer will provide water to the Property for construction purposes, as follows:

(a) Developer may use water from the transferred and conveyed Production Wells for construction purposes at the Property. At Developer's request, Utility will operate the transferred and conveyed Production Wells as Developer's agent to allow water from the transferred and conveyed Production Wells to be delivered to the Property for construction purposes. While the Production Wells are used for both domestic water service and for construction purposes, Utility will charge Talking Rock Golf for a share of the costs of operation, maintenance and repair of the Production Wells as provided in paragraph 18(b) and (c).

(b) Utility shall wheel up to 125 acre-feet per year of water for construction purposes through the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property to construction meters to be installed at the Property. Utility will operate the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property, as agent for Developer, to allow water to be wheeled from the Production Wells transferred and conveyed to Utility for construction purposes at the Property. Except in emergency situations described in paragraph 15(f), the flow rate as measured at the construction meters of the water that Utility must wheel through the Pump Station and the storage and domestic water delivery system of the Property for construction purposes shall be the lesser of (i) the flow rate requested by Developer, or (ii) the actual combined production capacity of the transferred and conveyed Production Wells at the particular time in question, less the production rate necessary to satisfy then-existing domestic water demands, and less the production rate necessary to satisfy Talking Rock Golf's requests for the use of unused production capacity at the transferred and conveyed Production Wells pursuant to paragraph 14(d).

(c) In consideration of the agreement of Utility to wheel water to the Property for construction purposes, Developer shall cause Talking Rock Golf to pay Utility the Wheeling Charge for water wheeled from the transferred and conveyed Production Wells through the Off-Site Main, the Pump Station and the Property's storage and domestic delivery system to the Property for construction purposes, as measured at the construction meters.

(d) On a monthly basis, Developer will pay or cause Talking Rock Golf to pay Utility the Wheeling Charge for the amount of water wheeled from the transferred and conveyed Production Wells to the Property for construction purposes during the immediately-preceding billing period. Each said payment shall be paid within fifteen (15) days after delivery of the calculation of the Wheeling Charge pursuant to paragraph 19. If Developer or Talking Rock Golf fails to timely make a payment of a Wheeling Charge under the subparagraph, and Developer does not cure or cause Talking Rock Golf to cure such failure within ten (10) days after Developer and Talking Rock Golf receive written notice from Utility of such failure, Utility may refuse to wheel water from the Production Wells for construction purposes until such time as Developer pays or causes Talking Rock Golf to pay the delinquent amount to Utility.

(e) Other than the payment of the Wheeling Charge and the amounts due under paragraph 18, neither Developer, nor Talking Rock Golf, nor any successor or assign of either of them shall have any obligation to pay for the delivery of water wheeled to the Property for construction purposes pursuant to this Agreement, or to pay for the operation, maintenance, repair or replacement of any facilities used in the wheeling of water to the Property for construction purposes pursuant to this Agreement, including the Off-Site Main, the Pump Station and the storage and delivery system at the Property.

(f) In the event that an emergency causes a reduction in the transmission capacity of the Off-Site Main, or a reduction in the treatment capacity of the Treatment Facilities, or a reduction in the storage or delivery capacity of the Pump Station or any other component of the domestic water system at the Property and such reduction causes a shortage of water for domestic delivery to Utility customers located at the Property, (i) Utility may use so much of the transmission capacity of the Off-Site Main, or the treatment capacity of the Treatment Facilities, or the storage or delivery capacity of the Pump Station and all other components of domestic water system at the Property (as the case may be) as is necessary to satisfy the domestic water demands of Utility's customers located at the Property, for so long as the emergency exists, and (ii) Utility will use the remaining transmission capacity of the Off-Site Main, or the remaining treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the Pump Station and all other components of the domestic water system at the Property (as the case may be) to wheel water for golf course irrigation pursuant to paragraph 14, and (iii) after satisfying the demands for water described in paragraphs 15(f)(i) and (ii), Utility will use any remaining transmission capacity of the Off-Site Main or any remaining treatment capacity of the Treatment Facilities, or any remaining storage or delivery capacity of the Pump Station and the other components of the domestic water system at the Property (as the case may be) to wheel water to the Property for construction purposes pursuant to this paragraph.

16. Additional Wells. Talking Rock Land, Talking Rock Golf or Developer may drill and equip an additional well or wells at the Property for use in supplying construction water to the Property or for use in supplying golf course irrigation and lake fill

water. Following the completion of such additional well or wells, Utility and the owner of the well will negotiate in good faith for the wheeling by Utility of the water produced for such additional well or wells on terms substantially similar to those contained herein, provided, however, that (a) except as provided below, Utility reasonably determines that there is available capacity in the Off-Site Main, the Pump Station and other components of the storage and delivery system at the Property at the time of day water would be wheeled from such additional well or wells, and (b) Utility reasonably determines that the quality of the water produced from such additional well or wells (after treatment with chlorination facilities similar to those installed by Talking Rock Golf at the Wellsite) is acceptable. Notwithstanding the foregoing, if such additional well or wells is for use in supplying golf course irrigation and lake fill water, and the owner of such well or wells agrees that the flow rate that Utility must wheel through the Off-Site Main, the Pump Station and other components of the storage and delivery system at the Property to the Golf Course shall not exceed 925 gpm (as provided in paragraph 14(e)), Utility shall determine that there is available capacity in the Off-Site Main, the Pump Station and the other components of the storage and delivery system at the Property to wheel water from such additional well or wells.

17. Term. The term of this Agreement shall be perpetual. In the event that the continuing effect of this Agreement is determined to be unenforceable by a court of competent jurisdiction, then the initial term of this Agreement shall be one hundred twenty (120) years, commencing on the date hereof. Thereafter, the term of this Agreement shall be extended, automatically and without notice, for consecutive periods of twenty-five (25) years each after the initial one hundred twenty (120) year period has expired.

18. Costs and Expenses.

(a) Wells Owned and Used by One Party. Talking Rock Golf shall be solely responsible for the costs and expenses of the operation, maintenance and repair of the Golf Course Wells. Except as provided in paragraph 18(c), Utility shall be solely responsible for the costs and expenses of the operation, maintenance and repair of the Production Wells transferred and conveyed to Utility.

(b) Additional Treatment Facilities. In the event that Utility installs Additional Treatment Facilities for the treatment of water withdrawn solely from a Golf Course Well, Talking Rock Golf shall be solely responsible for the costs and expenses of the operation, maintenance and repair of such Additional Treatment Facilities. Except as provided in paragraph 18(c), Utility shall be solely responsible for the costs and expenses of the operation, maintenance and repair of Additional Treatment Facilities installed by Utility for the treatment of water withdrawn solely from Production Wells transferred and conveyed to Utility.

(c) Wells Jointly Used. For each transferred and conveyed Production Well that Utility allows Talking Rock Golf to use to provide water to the Golf Course pursuant to paragraph 14(d) during a particular calendar year or allows Developer to use for construction purposes pursuant to paragraph 15 during a particular calendar year, Utility and Talking Rock Golf will share the costs and expenses of the operation, maintenance and repair of that Production Well and the costs and expenses of the operation, maintenance and repair of any Additional Treatment Facilities installed solely for the treatment of water from that Production Well, as follows:

(i) Fixed Monthly Fee. On or before the first day of each month, commencing with the first month after Developer transfers and conveys Production Well 3 to Utility, Talking Rock Golf will pay Utility the Fixed Monthly Fee (herein defined) as a reasonable estimate of Talking Rock Golf's proportionate share of the Well OM&R Costs (herein defined) for the transferred and conveyed Production Wells incurred or to be incurred during the calendar year in question. "Fixed Monthly Fee" means \$1,250.00 for the year 2003. Thereafter, the Fixed Monthly Fee may be adjusted by Utility no more frequently than once per calendar year by Utility providing written notice of an adjustment in the Fixed Monthly Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Monthly Fee, such as, for example, the Well OM&R Costs for prior calendar years, or changes in the amount of water wheeled from the transferred and conveyed Production Wells to the Golf Course under paragraph 14 or for construction purposes under paragraph 15. The adjusted Fixed Monthly Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives the notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Well OM&R Costs for a calendar year for the Production Wells governed by this paragraph 18(c) shall be an amount equal to (A) the total amount of Well OM&R Costs incurred by Utility with respect to the transferred and conveyed Production Wells for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year, less the amount of water withdrawn from that Golf Course Wells during the calendar year.

(iii) On or before January 31st of each calendar year, commencing in 2004, Talking Rock Golf will deliver to Utility the meter readings for the Golf Course Wells, indicating the amount of water withdrawn from the Golf Course Wells during the preceding calendar year.

(d) Pump Station. Utility and Talking Rock Golf will share the costs and expenses of the operation, maintenance and repair of the Pump Station, as follows:

(i) Fixed Pump Station Fee. On or before the first day of each month, commencing with the first month after Developer transfers and conveys Production Well 3 to Utility, Talking Rock Golf will pay Utility the Fixed Pump Station Fee (herein defined) as a reasonable estimate of Talking Rock Golf's proportionate share of the Pump Station OM&R Costs (herein defined) for the Pump Station incurred or to be incurred during the calendar year in question. "Fixed Pump Station Fee" means \$250.00 for the year 2003. Thereafter, the Fixed Pump Station Fee may be adjusted by Utility no more frequently than once per calendar year by Utility providing written notice of an adjustment in the Fixed Pump Station Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Pump Station Fee, such as, for example, the Pump Station OM&R Costs for prior calendar years, or

changes in the amount of water wheeled to the Golf Course under paragraph 14 or for construction purposes under paragraph 15. The adjusted Fixed Pump Station Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives the notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for a calendar year shall be an amount equal to (A) the total amount of Pump Station OM&R Costs incurred by Utility for the calendar year; (B) multiplied by a fraction, the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, and the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(iii) Alternative Calculation. Notwithstanding the foregoing, if Talking Rock Golf installs a separate water transmission line for the delivery of water withdrawn from the Golf Course Well(s) directly to the Golf Course and does not utilize the Off-Site Main during the course of a calendar year to deliver water withdrawn from the Golf Course Well(s) to the Golf Course, then Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for that calendar year shall be an amount equal to (A) the total amount of Pump Station OM&R costs incurred by Utility for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and the construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(e) Treatment Facilities. Talking Rock Golf will pay all costs and expenses of the operation, maintenance and repair of those Additional Treatment Facilities, if any, installed by Utility and used to treat water withdrawn solely from a Golf Course Well, and Utility and Talking Rock Land will share the costs and expenses of the operation, maintenance and repair of the Treatment Facilities used to treat water withdrawn from Production Wells and Golf Course Wells, including the Chlorination Facilities, as follows:

(i) Fixed Treatment Fee. On or before the first day of each month, commencing with the first month after Talking Rock Golf transfers and conveys the Chlorination Facilities to Utility, Talking Rock Golf will pay Utility the Fixed Treatment Fee (herein defined) as a reasonable estimate of the Golf Course Well Treatment OM&R Costs (herein defined) and of the Shared Well Treatment OM&R Costs (herein defined) incurred or to be incurred during the calendar year in question. "Fixed Treatment Fee" means \$250.00 for the year 2003. Thereafter, the Fixed Treatment Fee may be adjusted by Utility no frequently than once per calendar year by Utility providing written notice of an adjustment in the Fixed Treatment Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Treatment Fee, such as, for example, the Treatment OM&R Costs for prior calendar years, or changes in the amount of water pumped from the Golf Course Wells. The adjusted Fixed Treatment Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of

the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Shared Treatment OM&R Costs for a calendar year shall be an amount equal to (A) the total amount of Shared Treatment OM&R Costs incurred by Utility for the calendar year; (B) multiplied by a fraction, the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, and the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(iii) Alternative Calculation. Notwithstanding the foregoing, if Talking Rock Golf installs a separate water transmission line for the delivery of water withdrawn from the Golf Course Well(s) directly to the Golf Course and does not utilize the Off-Site Main during the course of a calendar year to deliver water withdrawn from the Golf Course Well(s) to the Golf Course and does not utilize the Treatment Facilities to treat the water withdrawn from the Golf Course Wells and delivered to the Golf Course, then Talking Rock Golf's actual proportionate share of the Shared Treatment OM&R Costs for that calendar year shall be an amount equal to (A) the total amount of Shared Treatment OM&R costs incurred by Utility for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and the construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(f) Annual Calculation – Well OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Well OM&R Costs for the preceding calendar year pertaining to the Production Wells governed by paragraph 18(c), along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Well OM&R Costs for the Production Wells for the preceding calendar year calculated pursuant to paragraph 18(c)(ii), information on the meter readings used in the calculation, and the amount of any underpayment or overpayment of Well OM&R Costs, taking into account the Fixed Monthly Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Well OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Well OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Well OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Monthly Fee under paragraph 18(c)(i) or the amount of any underpayment of Talking Rock Golf's actual proportionate share of Well OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from

Utility of such failure, Utility may refuse to wheel water from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Well OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the transferred and conveyed Production Wells or the Additional Treatment Facilities, if any, installed to treat water withdrawn solely from the transferred and conveyed Production Wells, including without limitation, electricity charges, water quantity measurement and monitoring costs; water quality testing and monitoring costs; water quality treatment costs; personnel costs; supplies; taxes and fees; insurance; and administration and billing costs. Well OM&R Costs do not include Capital Costs (defined below).

(ii) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed at the transferred and conveyed Production Wells, after the transfer and conveyance of the Production Well in question to Utility, which are considered capital in nature under generally accepted accounting principles (the "Capital Costs"), whether or not such parts, components, equipment or materials are replacements of currently-existing parts, components, equipment or materials at the transferred and conveyed Production Wells, and whether or not such parts, components, equipment and material are considered Treatment Facilities or replacements of Treatment Facilities. Utility shall be solely responsible for the payment of all Capital Costs. Utility acknowledges and agrees that Developer's installation of the Production Wells, at Developer's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

(g) Annual Calculation - Pump Station OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Pump Station OM&R Costs for the preceding calendar year, along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for the preceding calendar year calculated pursuant to paragraph 18(d)(ii) or (iii), information on the meter readings used in the calculation, and the amount of any underpayment or overpayment of Pump Station OM&R Costs, taking into account the Fixed Pump Station Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Pump Station OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Pump Station Fee under paragraph 18(d)(i) or the amount of any underpayment of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the transferred and

conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Pump Station OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Pump Station, including without limitation, electricity charges; supplies; personnel costs; taxes and fees; insurance; and administration and billing costs. Pump Station OM&R Costs do not include Pump Station Capital Costs (defined below).

(ii) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed at the Pump Station, after the initial installation of the Pump Station, which are considered capital in nature under generally accepted accounting principles (the "Pump Station Capital Costs"), whether or not such parts, components, equipment or materials are replacements of currently-existing parts, components, equipment or materials at the Pump Station. Utility shall be solely responsible for the payment of all Pump Station Capital Costs. Utility acknowledges and agrees that Developer's installation of the Pump Station, at Developer's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

(h) Annual Calculation – Treatment OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Treatment OM&R Costs for the preceding calendar year, along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Shared Treatment Costs for the preceding calendar year calculated pursuant to paragraph 18(e)(ii) or (iii), information on the meter readings used in the calculation, and of the amount of any underpayment or overpayment of Treatment OM&R Costs, taking into account the Fixed Treatment Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Treatment OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Treatment OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Treatment OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Treatment Fee under paragraph 18(e)(i) or the amount of any underpayment of the actual Treatment OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Golf Course Well Treatment OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Additional Treatment Facilities, if any, used to treat water withdrawn solely from a Golf Course Well, including without limitation, electricity charges; water quality testing and monitoring costs; water quality treatment costs; supplies; personnel costs; taxes and fees; insurance; and

administration and billing costs. Golf Course Well Treatment OM&R Costs do not include Treatment Capital Costs (defined below).

(ii) "Shared Well Treatment OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Treatment Facilities, including the Chlorination Facilities, used to treat water withdrawn from the Production Wells and the Golf Course Wells, including without limitation, electricity charges; water quality testing and monitoring costs; water quality treatment costs; supplies; personnel costs; taxes and fees; insurance; and administration and billing costs. Shared Well Treatment OM&R Costs do not include Treatment Capital Costs (defined below).

(iii) "Treatment OM&R Costs" means the Golf Course Well Treatment OM&R Costs for a particular year plus the Shared Well Treatment OM&R Costs for the particular year.

(iv) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed as Treatment Facilities, which are considered capital in nature under generally accepted accounting principles (the "Treatment Capital Costs"), including any parts, components, equipment or materials that are replacements of the parts, components, equipment or materials installed as part of the Chlorination Facilities. Utility shall be solely responsible for the payment of all Treatment Capital Costs. Utility acknowledges and agrees that the installation of the Chlorination Facilities, at Talking Rock Golf's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

19. Practices and Procedures; Meter Reading; Access to Meters. Utility, Developer and Talking Rock Golf will develop practices and procedures for the ordering of water and the operation of the transferred and conveyed Production Wells, the Golf Course Wells, the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and distribution system at the property, with the intent that (a) sufficient water is pumped from the transferred and conveyed Production Wells and delivered to the Property to satisfy, in full and at all times, the domestic water demands at the Property, consistent with the terms, conditions and limitations of this Agreement; (b) sufficient water is pumped from the transferred and conveyed Production Wells and the Golf Course Wells and wheeled to the Golf Course to satisfy, in full and at all times, the demands for golf course irrigation and lake-fill water at the Golf Course, consistent with the terms, conditions and limitations of this Agreement; and (c) sufficient water is pumped from the transferred and conveyed Production Wells and wheeled to the Property to satisfy, in full and at all times, the construction water demands at the Property, consistent with the terms, conditions and limitations of this Agreement. On a monthly basis, Utility will provide Developer and Talking Rock Golf with (i) meter readings from the Utility Meter, the Golf Course Meter, and the construction meters, (ii) a calculation of the amount of water provided for domestic purposes equal to the water measured at the Utility Meter less the water measured at the Golf Course Meter and the construction meters, (iii) a calculation of the Golf Course Wheeling Charge for the billing period in question, equal to the Wheeling Charge multiplied by the amount of water delivered to the Golf Course Meter during the billing period, and (iv) a calculation of the construction Wheeling Charge for the billing period in question, equal to the Wheeling Charge multiplied by the amount of water delivered to the construction meters during

the billing period. Utility will allow Developer and Talking Rock Golf monthly access to the Utility Meter for the purpose of reading the Utility Meter. Talking Rock Golf will allow Developer and Utility monthly access to the Golf Course Meter for the purpose of reading the Golf Course Meter. Developer will cause Talking Rock Land to allow Developer and Utility monthly access to the construction meters for the purpose of reading the construction meters. Developer or Talking Rock Golf may request that Utility calibrate and adjust the Utility Meter not more frequently than twice per calendar year, and Utility will so calibrate and adjust (if necessary) the Utility Meter, at the cost of Talking Rock Golf. Utility may request that Talking Rock Golf calibrate and adjust the Golf Course Meter not more frequently than twice per calendar year, and Talking Rock Golf, at its cost, will so calibrate and adjust (if necessary) the Golf Course Meter.

20. Scheduled Shutdowns. Utility may shut down any of the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main or any other facilities transferred and conveyed to Utility pursuant to this Agreement, for inspection, maintenance and repair, or for the installation of capital replacements, or in the event of an emergency. For scheduled shutdowns, Utility will use reasonable efforts to schedule such shutdowns at times that will minimize adverse impacts on the operation of the Golf Course Wells. Utility shall diligently complete any inspection, repair or maintenance of the Production Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed to Utility pursuant to this Agreement. Interruption of use shall not render Utility liable to Developer or Talking Rock Golf for damages. Utility will provide Developer and Talking Rock Golf with written notice of a shutdown of the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed pursuant to this Agreement, as the case may be, not less than ten (10) business days prior to the shutdown, except in the event of an emergency, in which event no prior notice of the shutdown will be required. In the event of an emergency, Utility will immediately take such actions as are reasonably necessary to restore the Production Well or Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed pursuant to this Agreement, as the case may be, to pre-emergency operation.

21. Non-Discrimination Provision. Utility covenants and agrees to treat Developer in a non-discriminatory manner. Utility shall, as a prerequisite to providing service, require all future homebuilders and/or developers contributing or advancing water supply to Utility to serve customers in Utility's certificated service area, to convey ownership of all production well(s) used to supply water to Utility.

22. No Public Dedication. The transfer and conveyance of a Production Well, the Chlorination Facilities, the Off-Site Main or any other property to Utility shall not have the effect of dedicating the Wellsite, the Adjacent Property, any of the Property or any other real property owned by Developer or Talking Rock Golf to any public use or purpose.

23. Estoppel Certificate. A party shall at any time and from time to time upon not less than ten (10) days prior written notice from the other party execute, acknowledge and deliver to the requesting party a statement in writing (a) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (b) acknowledging that there are not,

to the knowledge of the certifying party, any uncured defaults on the part of the other party hereunder, or specifying such defaults, if there are any claimed; and (c) confirming such other matters as the requesting party may reasonably request. Any such statement may be relied upon by the requesting party, and any prospective purchaser or encumbrancer of the requesting party's property. Upon a failure to sign the statement or notify the requesting party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting party shall be deemed approved.

24. Force Majeure. No party to this Agreement shall be liable to the others for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, interference by civil authorities, passage of laws, orders of the court; adoption of rules or ordinances; acts, failures to act, decisions or orders or regulations of any governmental or military body or agency, office or commission; delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the party affected and which, by the exercise of due diligence, such party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each party may perform its obligations under this Agreement.

25. Insurance. During the term of this Agreement, Talking Rock Golf shall, at its own expense, maintain in full force a policy or policies of commercial general liability insurance and fire and casualty insurance, in such amounts and with such companies as it deems reasonably appropriate. The policy(ies) shall insure Talking Rock Golf, with Utility as an additional named insured, against all liability for injury to persons and property and for the death of any person occurring in or about the Golf Course Wells or the Wellsite. During the term of this Agreement, Utility shall, at its own expense, maintain in full force a policy or policies of commercial general liability insurance and fire and casualty insurance, in such amounts and with such companies as it deems reasonably appropriate. The policy(ies) shall insure Utility, with Developer, Talking Rock Land and Talking Rock Golf as additional insureds, against all liability for injury to persons and property and for the death of any person occurring at or about the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main, the Other Facilities, Utility's storage, treatment or water distribution system, or caused or alleged to be caused by the delivery of water through Utility's storage, treatment or distribution system.

26. Indemnity. Utility shall indemnify, save and hold harmless Developer, Talking Rock Land and Talking Rock Golf and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from a transferred and conveyed Production Well by Utility pursuant to this Agreement or withdrawn from a transferred and conveyed Production Well or a Golf Course Well and wheeled by Utility pursuant to this Agreement, including any liability resulting from the quality of the water or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

27. Notices. All notices and other written communications required hereunder

shall be sent to the parties as follows:

Swayze McCraine
ICR Water Users Association
P.O. Box 4413
Prescott, Arizona 86302

Douglas R. Zuber
Harvard Simon I, L.L.C.
c/o Harvard Investment, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Douglas R. Zuber
Talking Rock Golf, L.L.C.
c/o Harvard Investments, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Each party shall advise the other party in writing of any change in the manner in which notice is to be provided hereunder. Notices shall be in writing and shall be given by personal delivery, or by overnight delivery by a national delivery service, or by delivery through the United States Postal Service, registered or certified mail, return receipt requested, postage prepaid. Notices shall be deemed delivered when received, if by personal delivery, or on the next business day after delivery, if by overnight delivery, or on the third day after deposit with the United States Postal Service, addressed as noted above.

28. Right of Assignment.

(a) Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility and Talking Rock Golf prior to the effective date of assignment and provided, further, that the assignee assumes in writing Developer's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Developer's obligations hereunder, Developer shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption. With regard to construction at the Property, the rights and obligations under paragraph 15 and under any other provisions of this Agreement pertinent to the delivery of water to the Property for construction purposes may be assigned and delegated by Developer, its successors and assigns, to any future owner of all or any portion of the Property, by the assignor giving written notice of such assignment to Utility and Talking Rock Golf prior to the effective date of assignment, together with an agreement in writing by the assignee to assume Developer's obligations under paragraph 15 and such other provisions of this Agreement, and a description of the property owned by the assignee. Upon delivery of such notice and a written assumption of Developer's obligations under paragraph 15 and such other provisions of this Agreement, Developer shall be released from all obligations arising under paragraph 15 or such other provisions after the effective date of the assignment and assumption that pertain to delivery of construction water to the property

owned by the assignee.

(b) Talking Rock Golf may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility and Developer prior to the effective date of assignment and provided, further, that the assignee assumes in writing Talking Rock Golf's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Talking Rock Golf's obligations hereunder, Talking Rock Golf shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption. With regard to the Golf Course, the rights and obligations under paragraph 14 and under any other provisions of this Agreement pertinent to the Golf Course Wells or the delivery of water to the Golf Course from the transferred and conveyed Production Wells or the Golf Course Wells may be assigned and delegated by Talking Rock Golf, its successors and assigns, to any future owner of the Golf Course, by the assignor giving written notice of such assignment to Utility and Developer prior to the effective date of assignment, together with an agreement in writing by the assignee to assume Talking Rock Golf's obligations under paragraph 14 and such other provisions of this Agreement. Upon delivery of such notice and a written assumption of Talking Rock Golf's obligations under paragraph 14 and such other provisions of this Agreement, Talking Rock Golf shall be released from all obligations arising under paragraph 14 or such other provisions after the effective date of the assignment and assumption.

(c) Utility may assign all of its rights under this Agreement, and delegate all of its obligations hereunder, to another water utility company obligated to provide domestic water service to the Property, provided that written notice of such assignment is given to Developer and Talking Rock Golf prior to the effective date of assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder, Utility shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption.

29. Default. If any party breaches, or defaults under, this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under paragraphs 11, 12, 13, 14 and 15, or for a period of ten (10) days with respect to any default in the payment of money, or for a period of thirty (30) days with respect to any other default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance.

30. Attorneys' Fees. The prevailing party in any litigation or other proceeding concerning or related to this Agreement, or the enforcement of thereof, shall be entitled to recover its costs and reasonable attorneys' fees.

31. Time of the Essence. Time is of the essence of every provision hereof.

32. Prior Agreement. Developer and Utility previously entered into a Water Purchase Agreement dated April 27, 2001 (the "Water Purchase Agreement"). Upon the execution and delivery of this Agreement, the Water Purchase Agreement shall be entirely

superceded, terminated, void and of no further force or effect whatsoever. Each party shall, at the request of the other party, confirm in writing that the Water Purchase Agreement is so superceded, terminated, void and of no further force or effect.

33. Miscellaneous. This Agreement shall be governed by the laws of the State of Arizona. Without changing the assignment provision of paragraph 28, this Agreement, and each and every term and condition contained herein, shall be binding upon and inure to the benefit of the successors and assigns of Utility, Developer and Talking Rock Golf. This Agreement sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them, except as otherwise expressly provided herein. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any party unless in writing and signed by all parties. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. The headings in this Agreement are inserted for convenience only, and shall not constitute a part of this Agreement or be used to construe or interpret any of its provisions. The parties have participated jointly in the negotiation and drafting of this Agreement. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, an Arizona
public service corporation

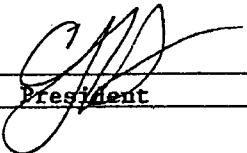
By: [Signature]
Its: President

"Utility"

HARVARD SIMON I, L.L.C., an Arizona limited
liability company


By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By: 
Its: President

"Developer"

TALKING ROCK GOLF, L.L.C., an Arizona
limited liability company *

By: 
Its: President of
Harvard Investments, Inc.,
Manager of
Harvard Talking Rock, L.L.C.,
Operating Member of
Harvard Simon I, L.L.C.,
Manager of
TALKING ROCK GOLF, L.L.C.*

PARCEL I:

All of Sections 15 and 16, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

PARCEL II:

Thence Northeast quarter of Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, lying Northeasterly of Prescott-Simmons Road, as it existed on June 10, 1920.

EXCEPT all that portion of Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the point of intersection of the Easterly right of way of the Simmons Road and the North line of said Section 17, being the TRUE POINT OF BEGINNING;

Thence South 89°54' East, along the North line of said Section 17, a distance of 514.55 feet;

Thence South 34°33' East, parallel with the said Simmons Road 514.55 feet;

Thence North 89°54' West, 514.55 feet to a point on the said Easterly right of way of the Simmons Road;

Thence North 34°33' West, 514.55 feet, along the said Easterly right of way of the Simmons Road to the TRUE POINT OF BEGINNING as conveyed in Warranty Deed recorded November 13, 1996 in Book 3310 of Official Records, Page 854.

PARCEL III:

All of Sections 21 and 22, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian.

EXCEPT THEREFROM all coal, oil, gas and other mineral deposits as reserved in the Patent recorded in Book 25 of Official Records, Page 106.

(Affects Section 22, Township 16 North, Range 3 West.)

EXCEPT for that portion lying within the following described Parcels:

PARCEL A:

Section 21 and Section 22 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, described as follows:

BEGINNING at the intersection of the South line of said Section 22 and the Westerly sideline of Williamson Valley Road, 100 feet wide (also know as Prescott-Simmons Highway);

Thence along said Westerly line, North 30°31'54" West, 945.97 feet;

Thence parallel with the Southerly line of said Section 22, North 88°54'05" West, 2,215.12 feet to the East line of said Section 21;

Thence parallel with the Southerly line of said Section 21, South 86°23'15" West, 2,826.98 feet;

Thence continuing along said parallel line, South 88°48'30" West, 1,170.00 feet;

Thence South 03°42'29" East, 805.67 feet to the South line of said Section 21;

Thence along said Section line, North 88°48'30" East, 1,151.53 feet to the Southerly quarter corner of said Section, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence continuing along said South line North 86°23'15" East, 2,804.18 feet to the Southeast corner of said Section 21, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence along the Southerly line of said Section 22, South 88°54'05" East, 2,684.88 feet to the POINT OF BEGINNING.

PARCEL B:

Any portion lying South of the Northerly right of way line of Nancy Drive as recorded in Book 16 of Maps, Page 63 and East of the Easterly right of way of Williamson Valley Road.

PARCEL IV:

The North half of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian.

EXCEPT for the following described Parcel:

That portion of Section 28, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Northeast corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ CHEEK PE 2398";

Thence along the North line of said Section 28, South $86^{\circ}23'15''$ West, 2,804.18 feet to the North quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK PE 2398";

Thence continuing along said North line of Section 28, South $88^{\circ}48'30''$ West, 1,151.53 feet to a line parallel with the East line of said Section 28;

Thence along said parallel line, South $03^{\circ}42'29''$ East, 2,614.40 feet to the mid-section line of said Section 28;

Thence along said mid-section line, North $86^{\circ}26'14''$ East, 3,957.37 feet to the East quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ CHEEK PE 2398";

Thence along the East line of said Section 28, North $03^{\circ}42'29''$ West, 2,707.30 feet to the POINT OF BEGINNING.

PARCEL V:

Section 33 of Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, lying Northerly and Northwesterly of the following described line:

BEGINNING on the West line of said Section, North $0^{\circ}12'47''$ West, 1,992.80 feet from the Southwest corner of said Section, said corner is monumented with a General Land Office survey monument;

Thence North $89^{\circ}47'13''$ East, 1051.14 feet to an existing 4 strand barbed wire fence;

Thence generally along said fence line, North $55^{\circ}49'36''$ East, 5,326.57 feet to the East line of said Section;

EXCEPT from all Parcels I, II and III any portion lying within Prescott-Simmons-Highway right of way.

PARCEL VI:

A portion of Section 11, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Southwest corner of said Section 11, as depicted on the Survey Plat recorded in Book 53 of Land Surveys, Page 30, records of said Yavapai County;

Thence South $88^{\circ}11'06''$ East, along the South line of said Section 11, a distance of 2,711.26 feet to the South quarter corner of said Section 11, as depicted on said Plat;

Thence South $88^{\circ}10'26''$ East, (of record South $88^{\circ}13'$ East), along said South line, a distance of 164.88 feet (of record 165.00 feet), to the Southwest corner of that certain parcel described in Book 2196 of Official Records, Page 746 and Book 3603 of Official Records, page 873, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North $00^{\circ}08'09''$ West, (of record North $00^{\circ}06'45''$ West), along the West line thereof, a distance of 1,826.06 feet (of record 1826.19 feet), to the Northwest corner of said Parcel, being also the Southwest corner of that certain parcel described in Book 2633 of Official Records, Page 474, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North $00^{\circ}05'23''$ West (of record North $00^{\circ}06'45''$ West), along the West line of said parcel described in Book 2633 of Official Records, Page 474, a distance of 1,829.86 feet (of record 1,837.24 feet), to the Northwest corner thereof, being also the Southwest corner of that certain parcel described in Book 2439 of Official Records, Page 517, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North $00^{\circ}07'54''$ West, (of record North $00^{\circ}07'00''$ West), along the West line of said parcel described in Book 2439 of Official Records, Page 517, a distance of 1,832.47 feet (of record 1,832.48 feet), to the Northwest corner of said parcel, said corner being a point on the North line of said Section 11 and being monumented with a one-half inch iron bar;

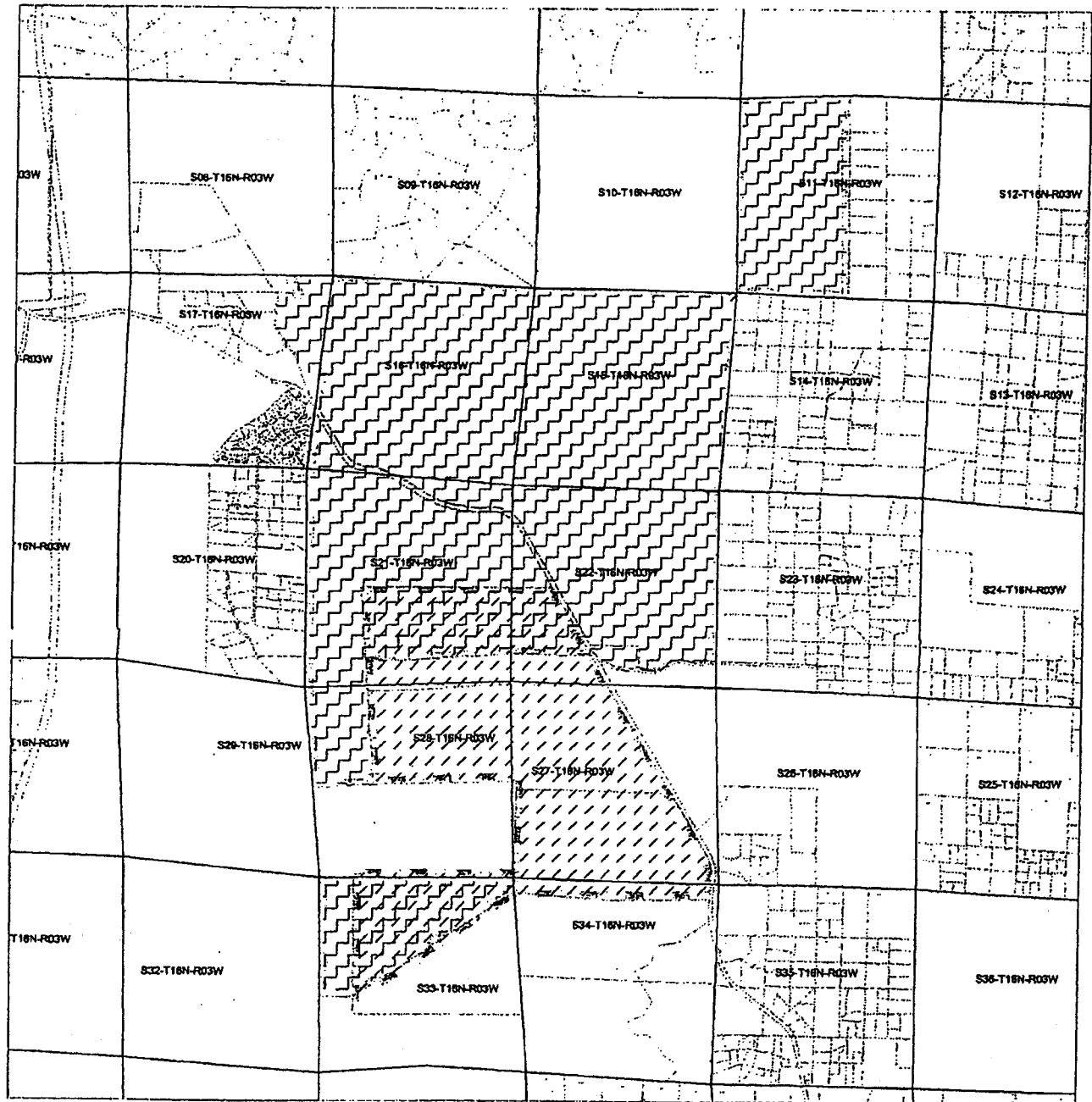
Thence North $88^{\circ}56'36''$ West (of record North $88^{\circ}56'06''$ West), along said north line, a distance of 165.03 feet (of record 165.00 feet), to the North quarter corner of said Section 11, as depicted on said Plat;

Thence North $88^{\circ}56'16''$ West, along said North line, a distance of 2,778.19 feet to the Northwest corner of said Section 11, as depicted on said Plat;

Thence South $00^{\circ}50'19''$ East, along the West line of said Section 11, a distance of 2,726.26 feet to the West quarter corner of said Section 11, as depicted on said Plat;

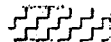
Thence South $00^{\circ}49'50''$ East, along said West line, a distance of 2,726.10 feet to the POINT OF BEGINNING.

ICR WATER USERS ASSOCIATION EXISTING CC&N AND REQUESTED EXPANSION

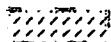


LEGEND

ICR WATER USERS
REQUESTED CC&N EXPANSION



ICR WATER USERS
CC&N AREA



PROPERTY OF
TRUST No. 4750

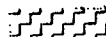


EXHIBIT "B"

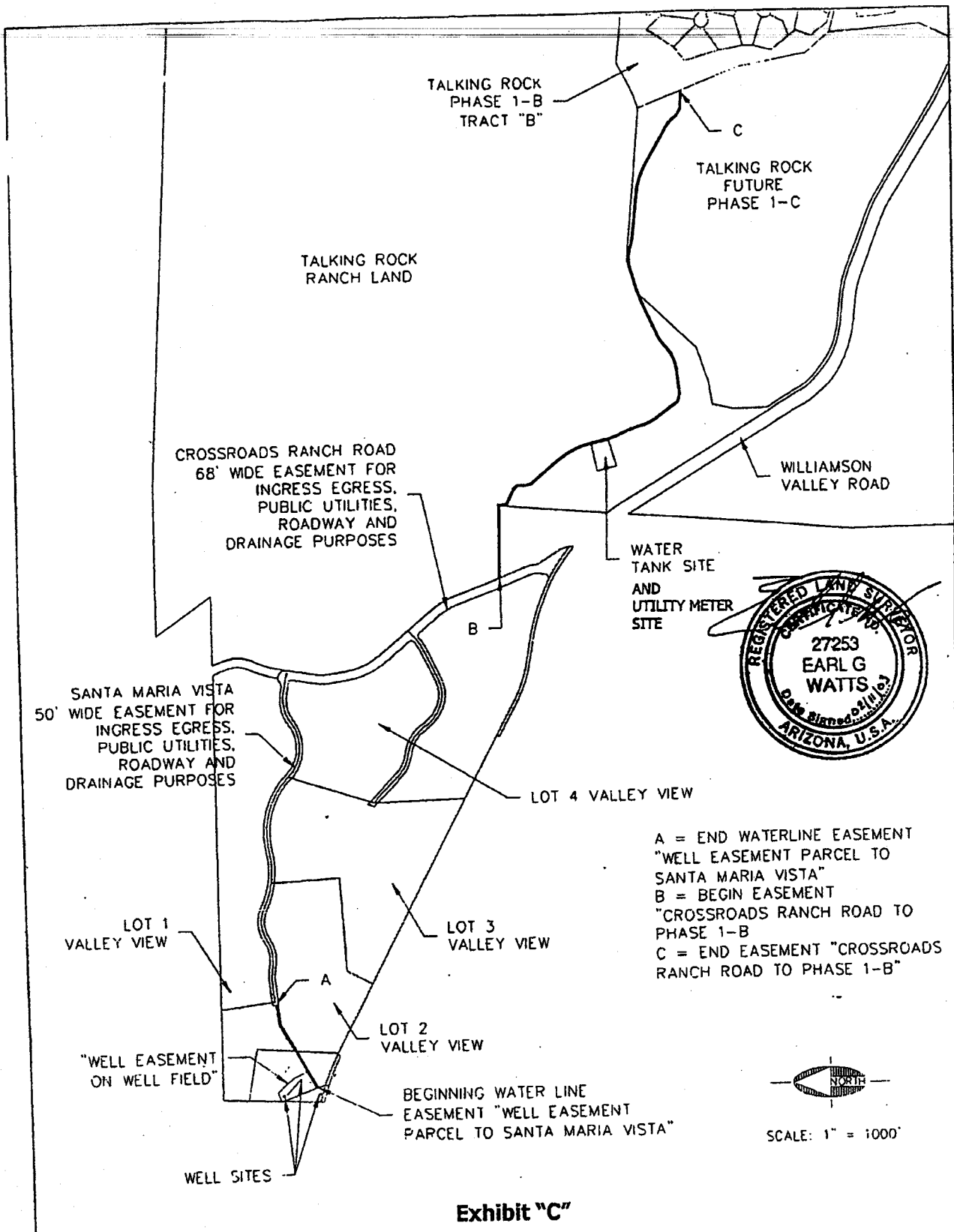


Exhibit "C"

SHEPARD - WESNITZER, INC. CIVIL ENGINEERING AND SURVEYING 1146 W. HWY 89A SUITE B, SEDONA, AZ 86340 (928) 282-1061	JOB NO: 02240	TALKING ROCK RANCH YAVAPAI COUNTY ARIZONA EXHIBIT WATER LINE EASEMENT	SHEET 1 OF 1
	DATE: FEB 03		
	SCALE: 1" = 1000'		
	DRAWN: TRM		
	DESIGN: N/A		
	CHECKED: EGW		

LEGAL DESCRIPTION
Talking Rock Off-site Water Easement
Well Easement on Well Field
(February 11, 2003)

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North 04°56'24" East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorders Office (R2) and Basis of Bearings for this description);

Thence North 46°18'18" West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North 02°31'38" East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North 02°27'51" East, a distance of 25.48 feet R3);

Thence South 76°26'12" East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South 76°30'00" East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South 13°33'48" West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of 05°08'20", a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North 20°12'03" West, (North 20°15'50" West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North 20°12'03" West (North 20°15'50" West R3), a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North 02°31'38" East (North 02°27'51" East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Exhibit "D"

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

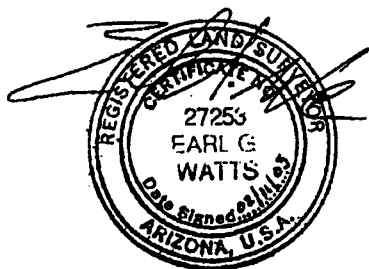
Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

This legal description was prepared by Earl G. Watts, RLS 27253, on behalf of and at the request of Shephard-Wesnitzer, Inc., Sedona, AZ.



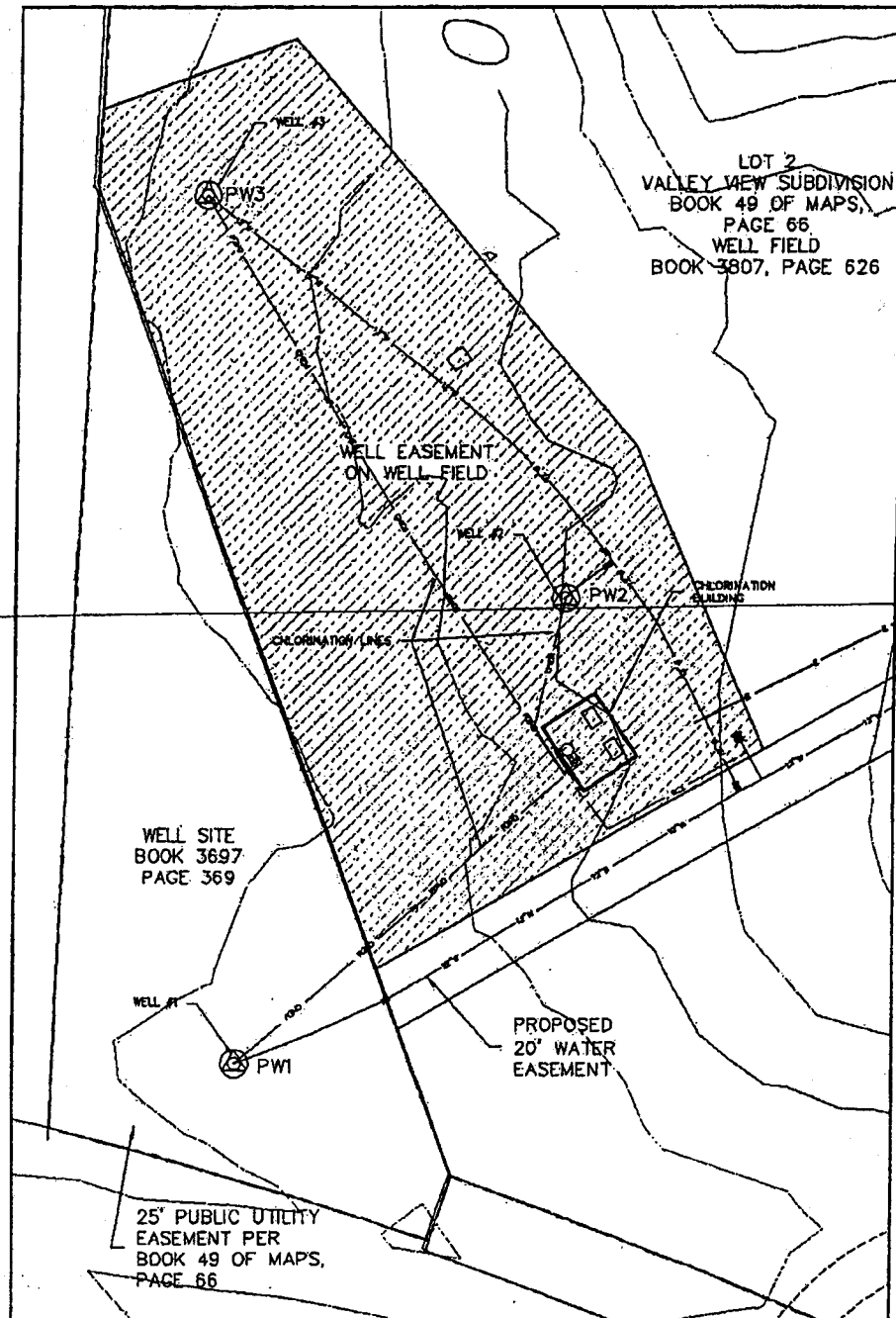


Exhibit "E"

[FORM – Revise for Production Well 2 to reflect Talking Rock Golf
as Seller and other conforming changes.]

When Recorded, Return to:

Michael T. Hallam, Esq.
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, AZ 85004-4429

BILL OF SALE
(Production Well)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **HARVARD SIMON I, L.L.C.**, an Arizona limited liability company, ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), (a) that well identified on Arizona Department of Water Resources records as Well Registration No. 55-_____ located at the property described on Exhibit "1" attached hereto, including all casing, pumps, motors, valves, pipes, meters, electrical facilities and connections, fencing and other parts, equipment, machinery and appurtenances used in the operation of the well (collectively, "Production Well 3"); and (b) that ____-inch water pipeline located at the property described on Exhibit "2" attached hereto, including valves and other parts, equipment, and other connecting facilities, extending from Production Well 3 to the Off-Site Main (herein defined) (collectively, the "PW-3 Connection Facilities"). The Off-Site Main is that 12-inch water transmission pipeline depicted on Exhibit "3" that extends from the wellfield developed by Seller at that property described on Exhibit "4" to a master-planned community commonly known as Talking Rock Ranch.

Seller hereby warrants title to Production Well 3 and the PW-3 Connection Facilities, subject to (i) taxes and assessments not yet due and payable; (ii) the terms, conditions, covenants and restrictions contained in that Well Agreement dated _____, 2003 (the "Well Agreement") between Seller and Buyer, including, without limitation, paragraphs 12 and 13 thereof; (iii) the terms, conditions, covenants and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona (the "Deed"); and (iv) all other matters of record. Buyer hereby accepts Production Well 3 and the PW-3 Connection Facilities subject to the terms, conditions, covenants and restrictions contained in the Well Agreement and the terms, conditions, covenants and restrictions contained in the Deed. In addition to the terms, conditions, covenants and restrictions contained in the Well Agreement or in the Deed, Buyer agrees that the maximum production capacity of Production Well 3 shall not exceed 430 gallons per minute, and Buyer shall not increase the production capacity of Production Well 3 beyond 430 gallons per minute without the express written consent of Seller and Talking Rock Golf, L.L.C., an Arizona limited liability company, or their successors and assigns. Notwithstanding

EXHIBIT "F"

anything to the contrary contained herein, Seller warrants title to Production Well 3 free and clear of any monetary liens, encumbrances or security interests (other than liens for taxes and assessments not yet due and payable).

Seller warrants that Production Well 3 will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to Production Well 3 remain in effect, if said construction warranties provided to Seller pertaining to Production Well 3 extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted Production Well 3 in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Seller makes no representation or warranty whatsoever as to the quantity or quality of water that may be produced from Production Well 3, either on the date hereof or in the future.

IN WITNESS WHEREOF, Seller and Buyer have duly executed this Bill of Sale
this ____ day of _____, 2003.

SELLER:

HARVARD SIMON I, L.L.C., an Arizona limited liability company

By: **HARVARD TALKING ROCK, L.L.C.**
Its: Operating Member

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: Manager

By: _____
Its: _____

BUYER:

ICR WATER USERS ASSOCIATION, an Arizona public service corporation

By: _____
Its: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, Manager of HARVARD TALKING ROCK, L.L.C., Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

[FORM – Revise for Production Well 2]

When recorded, return to:
Michael T. Hallam, Esq.
Lewis and Roca
40 North Central Avenue
Phoenix, Arizona 85004-4429

EASEMENT

(Production Wells and Related Facilities)

In consideration of TEN DOLLARS (\$10.00) and other good and valuable consideration paid to TALKING ROCK GOLF, L.L.C., an Arizona limited liability company ("Talking Rock Golf"), by ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), the receipt and sufficiency of which are hereby acknowledged, Talking Rock Golf, Utility and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer") agree as follows:

1. **GRANT OF WELLSITE EASEMENT.** Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "1" (the "Wellsite Easement Parcel"), for the following purposes:

(a) The use, operation, maintenance and repair of that well identified in Arizona Department of Water Resources records as Well Registration No. 55-_____, located at the Wellsite Easement Parcel, which well is referred to as Production Well 3 under that certain Well Agreement dated _____, 2003 between Developer, Utility and Talking Rock Golf (the "Well Agreement");

(b) The withdrawal of water from Production Well 3 for use by Utility for domestic purposes at the real property described in Exhibit "2" (the "Property");

(c) The withdrawal of water from Production Well 3 on behalf of and as requested by Talking Rock Golf for the purpose of wheeling water from Production Well 3 to the 18-hole golf course located at the Property pursuant to the Well Agreement;

(d) The withdrawal of water from Production Well 3 on behalf of and as requested by Developer for construction purposes at the Property pursuant to the Well Agreement;

(e) The withdrawal of water from Production Well 3 for water quality monitoring and testing as required by law in amounts reasonably sufficient for the purpose;

EXHIBIT "G"

(f) The installation, use, operation, repair, maintenance and replacement of parts, components, equipment or materials at the Wellsite Easement Property for the treatment of water pumped from Production Well 3 (the "Additional Treatment Facilities");

(g) The use, operation, repair, maintenance and replacement of piping, valves, fittings and other plant utility currently located in the Wellsite Easement Parcel and used for the purpose of delivering water from Production Well 3 to the Property (the "PW-3 Connection Facilities"); and

(h) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel as necessary for the exercise by Utility of the rights granted in paragraph 1(a) through 1(g) above.

2. GRANT OF ACCESS EASEMENT. Subject to the conditions, limitations, covenants and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive, perpetual easement on, over and across that parcel of land legally described on attached Exhibit "3" (the "Access Area") for pedestrian and vehicular ingress and egress to the Wellsite Easement Parcel.

3. TREATMENT FACILITIES. At its sole cost and expense, and as further described in the Well Agreement, Utility may install and construct Additional Treatment Facilities at the Wellsite Easement Parcel, in furtherance of the purpose described in paragraph 1(f), provided, however, that:

(a) Utility provides Talking Rock Golf and Developer with plans and specifications for the Additional Treatment Facilities before the plans and specifications are submitted to any regulatory agency for approval. Talking Rock Golf and Developer shall have the right to approve the location, size and design features of the Additional Treatment Facilities, which approval will not be unreasonably withheld or delayed. Approval by Talking Rock Golf and Developer is a condition precedent to Utility installing or constructing any component of the Additional Treatment Facilities;

(b) Talking Rock Golf or Developer may require that Utility change the proposed location of the Additional Treatment Facilities, or any component thereof, as a condition to their approval of the Additional Treatment Facilities;

(c) Utility will comply with all fencing and landscaping requirements for the Additional Treatment Facilities imposed by Talking Rock Golf or the Developer; and

(d) Utility will install and construct the Additional Treatment Facilities at the locations and having the size and design features approved by Talking Rock Golf and Developer.

If Utility's repair, maintenance or replacement of the Additional Treatment Facilities results in any change in the location, size or design features of the Additional Treatment Facilities, the conditions stated in subparagraphs 4(a) through 4(d) shall apply to said repair, maintenance and replacement. Neither Talking Rock Golf nor Developer make any representation or warranty of any nature regarding the quality of water available from Production Well 3, either now or in the future. Utility is solely responsible for treating the water withdrawn from Production Well 3 as

necessary to meet water quality standards imposed by all regulatory agencies having jurisdiction, as such standards may change from time to time. Notwithstanding the approval by Talking Rock Golf or Developer of the location, size and design features of the Additional Treatment Facilities, neither Talking Rock Golf nor Developer shall have any responsibility or liability for the performance or effectiveness of the Additional Treatment Facilities.

4. GENERAL COVENANTS, CONDITIONS, RESTRICTIONS AND LIMITATIONS. The exercise by Utility of the easements granted herein is subject to the following covenants, conditions, restrictions and limitations:

(a) Utility acknowledges and agrees that the Wellsite Easement Parcel encompasses another well identified in Arizona Department of Water Resources records as Well Registration No. 55-_____, which well is referred to as Production Well 2 in the Well Agreement, and also encompasses certain piping, valves, fittings and other plant utility currently located in the Wellsite Easement Parcel and used for the purpose of delivering water from Production Well 2 to the Property (the "PW-2 Connection Facilities"), and that this Easement grants no rights to Utility with respect to Production Well 2 or the PW-2 Connection Facilities;

(b) Utility's use, operation, maintenance and repair of Production Well 3 is subject to the terms, conditions, restrictions and limitations contained in the Well Agreement, including, without limitation, paragraphs 12 and 13 of the Well Agreement;

(c) Utility's use and operation of Production Well 3 is subject to the terms, conditions, restrictions and limitations contained in that Special Warranty Deed from Bluegrass West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in Book 3807, Page 626, records of Yavapai County, Arizona (the "Deed");

(d) Without the express written consent of Developer and Talking Rock Golf, or their successors and assigns, Utility shall not increase the production capacity of Production Well 3 beyond 430 gallons per minute;

(e) Utility shall use due care in entering the Wellsite Easement Parcel and the Access Area and in exercising its rights under this instrument;

(f) Utility may shut down Production Well 3, the PW-3 Connection Facilities, or the Additional Treatment Facilities as provided in the Well Agreement;

(g) Except in the event of shutdowns as provided in the Well Agreement, Utility shall not interfere with or disrupt Talking Rock Golf's use of the Wellsite Easement Parcel, or its use, operation, repair, maintenance or replacement of Production Well 2, the PW-2 Connection Facilities or any other wells owned by Talking Rock Golf;

(h) If Utility's exercise of its rights hereunder results in any disturbance of or damage to the Wellsite Easement Parcel or the Access Area, or any improvement thereon, Utility shall restore the Wellsite Easement Parcel or the Access Area to its original condition, including repairing any damage to any improvements located on the Wellsite Easement Parcel to the satisfaction of Talking Rock Golf, replacing any disturbed or damaged landscaping on the Wellsite Easement Parcel or the Access Area (whether naturally existing or intentionally

planted), and compacting, contouring and leveling the Wellsite Easement Parcel or the Access Area to the satisfaction of Talking Rock Golf; and

(i) If a party installs locked gates on the Wellsite Easement Parcel or the Access Area, or on adjacent land such that the other party's access to or use of the Wellsite Easement Parcel or the Access Area for permitted purposes is impeded, such party shall provide the others with keys to those locks.

5. INDEMNITY; RELEASES.

(a) Utility assumes any and all liability for injury to or death of persons and loss or destruction of or damage to property, in any manner arising from or growing out of or alleged to have arisen from or grown out of the entry and use of the Wellsite Easement Parcel or the Access Area or any improvements thereon, by or under Utility, however such injury, death, loss, destruction or damage may occur or be caused;

(b) Utility hereby releases, discharges, protects, indemnifies, saves and holds harmless Talking Rock Golf and Developer from any and all claims, demands, suits, actions, causes of actions, damages, losses, recoveries, judgments, costs and expenses whatsoever, including reasonable attorneys fees and costs, which are caused or occasioned by or have resulted from (or are alleged to have been caused or occasioned by or have resulted from) any use of the Wellsite Easement Parcel or the Access Area by or under Utility;

(c) Utility assumes and shall conduct the defense of any suit or proceeding brought against Talking Rock Golf or Developer for recovery for injury to or death of persons or for loss or destruction of or damage to property in any manner arising from or growing out of (or alleged to have arisen from or to have grown out of) any entry or use of the Wellsite Easement Parcel or the Access Area, or any improvements thereon by or under the Utility, unless Talking Rock Golf or Developer, as the case may be, desires to defend or to participate in the defense of any such suit or proceeding. Utility shall pay and satisfy any judgment which be rendered in any such suit or proceeding against Talking Rock Golf or Developer, together with all costs and expenses incident thereto, including reasonable attorneys fees;

(d) Utility shall protect and keep the title of the Wellsite Easement Parcel or the Access Area free and clear of and from any and all mechanics', laborers', materialmen's or other liens, claims, clouds and encumbrances in any manner arising from or growing out of any entry or use of the Wellsite Easement Parcel or the Access Area, or any improvements thereon, by or under Utility, or any work or operations conducted upon the Wellsite Easement Parcel or the Access Area by or under Utility.

6. RIGHTS OF TALKING ROCK GOLF. Talking Rock Golf reserves the right to use and enjoy the Wellsite Easement Parcel and the Access Area to the fullest extent possible, provided that such use and enjoyment do not unreasonably interfere with Utility's exercise of the rights granted herein.

7. ASSIGNMENT. Utility may assign its rights and delegate its obligations under this Easement only to the successors in interest to Utility who are obligated to provide domestic water service to the Property, provided that written notice of such assignment is given

to Developer and Talking Rock Golf prior to the effective date of the assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Easement, and provided, further, that the assignee has assumed in writing Utility's obligations under the Well Agreement and has agreed to be bound by the Well Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder and under the Well Agreement, Utility shall be released from all obligations arising under this Easement after the effective date of the assignment and assumption.

8. DEFAULT. If any party breaches, or defaults under, this Easement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under any of paragraphs 5(b) through 5(g) or with respect to a breach or default by any party under paragraph 5(i), or for a period of ten (10) days with respect to any other breach or default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance. The parties shall provide written notice to each other as provided in the Well Agreement.

9. WARRANTY OF TITLE. Talking Rock Golf covenants that it is the owner of the Wellsite Easement Parcel and the Access Area, subject to existing matters of record, including the Deed, and the rights of parties in possession, and has the right, title and capacity to grant the easements described in this instrument. Notwithstanding the foregoing, Talking Rock Golf warrants that title to the Wellsite Easement Parcel and the Access Area is free and clear of any monetary liens, encumbrances or security interests (other than taxes and assessments not yet due and payable) except those monetary liens, encumbrances and security interests the holders of which have consented to the grant of this Easement.

10. NO MODIFICATION; GOVERNING INSTRUMENT. By the execution of this instrument, the parties do not intend to modify, amend or effect the Well Agreement in any respect. In the event of any conflict between the terms of this instrument and the terms of the Well Agreement, the terms of the Well Agreement shall govern and prevail.

11. EFFECT OF AGREEMENT. This Easement runs with the land, is a burden upon the Wellsite Easement Parcel and the Access Area, is binding upon Talking Rock Golf and all persons having or acquiring any interest in the Wellsite Easement Parcel or the Access Area, and runs to the benefit of Talking Rock Golf, Developer and their successors and assigns. This Easement runs and inures to the benefit of, and is binding upon, Utility, its successors and assigns, subject to the terms of paragraph 8. This Easement will not operate to dedicate any property for public use.

DATED: This ____ day of _____, 2003.

TALKING ROCK GOLF, L.L.C.,
an Arizona limited liability company

By: _____
Its: _____

DEVELOPER:

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., a
Nevada corporation
Its Manager

By: _____
Its _____

ACCEPTED AND AGREED TO:

ICR WATER USERS ASSOCIATION,
an Arizona public service corporation

By: _____
Name: _____
Title: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of TALKING
ROCK GOLF, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

BILL OF SALE
(Off-Site Main and other Facilities)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **HARVARD SIMON I, L.L.C.**, an Arizona limited liability company ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), (a) that 12-inch water transmission main located within the property described on Exhibit "1" attached hereto, (b) that 300,000 gallon water storage facility located at the property described on Exhibit "2" attached hereto; and (c) that pump station located at the property described on attached Exhibit "2", together with all equipment, valves, meters, booster pumps, electrical systems, control systems and related infrastructure and appurtenances (together, the "Facilities"). Seller warrants title to the Facilities free and clear of any liens and encumbrances.

Seller warrants that the Facilities will be free from all defects and deficiencies in construction, materials and/or workmanship for a period the longer of (i) of one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to the Facilities remain in effect, if said construction warranties provided to Seller pertaining to the Facilities extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein.

Dated: _____, 2003.

SELLER:

HARVARD SIMON I, L.L.C., an Arizona limited liability company

By: **HARVARD TALKING ROCK, L.L.C.**
Its: Operating Member

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: Manager

By: _____
Its: _____

EXHIBIT "H"

BUYER:

**ICR WATER USERS ASSOCIATION, an Arizona
public service corporation**

By: _____
Its: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, Manager of HARVARD TALKING ROCK, L.L.C., Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

BILL OF SALE
(Chlorination Facilities)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **TALKING ROCK GOLF, L.L.C.**, an Arizona limited liability company ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), that water chlorination equipment and facilities, consisting of (a) three (3) chlorinators and three (3) injection pumps, solution tank, control systems and other related equipment and materials; (b) a building located at the real property described on Exhibit "1" that encloses said chlorinators, injection pumps, solution tank, control systems and other related equipment and materials; and (c) three (3) ____-inch diameter pipelines, together with connections, valves, and other equipment (each, a "Chlorine Pipeline") used to convey chlorine solution from said building to three (3) separate wellsites. The Chlorine Pipelines are located in the real property described on Exhibit "2." All of the water chlorination equipment and facilities described in subparagraphs (a), (b) and (c) are referred to herein collectively as the "Chlorination Facilities." Seller warrants title to the Chlorination Facilities free and clear of any liens and encumbrances.

Seller warrants that the Chlorination Facilities will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to the Chlorination Facilities remain in effect, if said construction warranties provided to Seller pertaining to the Chlorination Facilities extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted the Chlorination Facilities in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein.

Dated: _____, 2003.

SELLER:

TALKING ROCK GOLF, L.L.C., an Arizona limited liability company

By: _____
Its: _____

EXHIBIT "1"

BUYER:

ICR WATER USERS ASSOCIATION, an Arizona
public service corporation

By: _____
Its: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of TALKING
ROCK GOLF, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of ICR
WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the
corporation.

Notary Public

My Commission Expires:

When recorded, return to:

Michael T. Hallam, Esq.
Lewis and Roca
40 North Central Avenue
Phoenix, Arizona 85004-4429

EASEMENT

(Chlorination Facilities)

In consideration of TEN DOLLARS (\$10.00) and other good and valuable consideration paid to TALKING ROCK GOLF; L.L.C., an Arizona limited liability company ("Talking Rock Golf"), by ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), the receipt and sufficiency of which are hereby acknowledged, Talking Rock Golf, Utility and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer") agree as follows:

1. GRANT OF CHLORINATION FACILITIES EASEMENT. Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "1" (the "Wellsite Easement Parcel"), for the following purposes:

(a) The use, operation, maintenance, repair and replacement of (i) three chlorinators and three injection pumps, solution tank, control systems and other equipment, installed by Talking Rock Golf at the Wellsite Easement Parcel pursuant to that certain Well Agreement dated _____, 2003 between Developer, Utility and Talking Rock Golf (the "Well Agreement"); (ii) a small building installed by Talking Rock Golf at the Wellsite Easement Parcel that encloses the chlorinators, injection pumps, solution tank, control systems and other equipment; (iii) three ____-inch diameter pipelines (each, a "Chlorine Pipeline") that will each convey chlorine solution from a chlorinator to one of those wells identified in Arizona Department of Water Resources records as Well Registration Nos. 55-_____, 55-_____ and 55-_____, which wells are referred to, respectively, as Production Well 1, 2 and 3 in the Well Agreement; and (iv) connections, valves and other equipment necessary to connect a Chlorine Pipeline to a Production Well, to the extent located at the Wellsite Easement Parcel (all such facilities being referred to collectively as the "Chlorination Facilities"); and

(b) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel as necessary for the exercise by Utility of the rights granted in paragraph 1(a) above.

2. Grant of Easement over Adjacent Property. Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and

EXHIBIT "J"

assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "2" (the "Adjacent Parcel"), for the following purposes:

(a) The use, operation, maintenance, repair and replacement of (i) the Chlorine Pipeline that will convey chlorine solution from the Wellsite Easement Parcel to Production Well 1, which is located on the Adjacent Parcel; and (ii) connections, valves and other equipment necessary to connect the Chlorine Pipeline to Production Well 1; and

(b) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel and the Adjacent Parcel as necessary for the exercise by Utility of the rights granted in paragraph 2(a) above.

3. GRANT OF ACCESS EASEMENT. Subject to the conditions, limitations, covenants and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive, perpetual easement on, over and across that parcel of land legally described on attached Exhibit "3" (the "Access Area") for pedestrian and vehicular ingress and egress to the Wellsite Easement Parcel and the Adjacent Parcel.

4. GENERAL COVENANTS, CONDITIONS, RESTRICTIONS AND LIMITATIONS. The exercise by Utility of the easements granted herein is subject to the following covenants, conditions, restrictions and limitations:

(a) Utility shall use due care in entering the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area and in exercising its rights under this instrument;

(b) Utility may shut down Chlorination Facilities as provided in the Well Agreement;

(c) Except in the event of shutdowns as provided in the Well Agreement, Utility shall not interfere with or disrupt Talking Rock Golf's use of the Wellsite Easement Parcel or the Adjacent Parcel, or its use, operation, repair, maintenance or replacement of Production Well 1 or Production Well 2 or any other wells owned by Talking Rock Golf;

(d) If Utility's exercise of its rights hereunder results in any disturbance of or damage to the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvement thereon, Utility shall restore the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area to its original condition, including repairing any damage to any improvements located on the Wellsite Easement Parcel or the Adjacent Parcel to the satisfaction of Talking Rock Golf, replacing any disturbed or damaged landscaping on the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area (whether naturally existing or intentionally planted), and compacting, contouring and leveling the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area to the satisfaction of Talking Rock Golf; and

(e) If a party installs locked gates on the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or on adjacent land such that the other party's access to or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area for permitted purposes is impeded, such party shall provide the others with keys to those locks.

5. INDEMNITY; RELEASES.

(a) Utility assumes any and all liability for injury to or death of persons and loss or destruction of or damage to property, in any manner arising from or growing out of or alleged to have arisen from or grown out of the entry and use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area or any improvements thereon, by or under Utility, however such injury, death, loss, destruction or damage may occur or be caused;

(b) Utility hereby releases, discharges, protects, indemnifies, saves and holds harmless Talking Rock Golf and Developer from any and all claims, demands, suits, actions, causes of actions, damages, losses, recoveries, judgments, costs and expenses whatsoever, including reasonable attorneys fees and costs, which are caused or occasioned by or have resulted from (or are alleged to have been caused or occasioned by or have resulted from) any use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area by or under Utility;

(c) Utility assumes and shall conduct the defense of any suit or proceeding brought against Talking Rock Golf or Developer for recovery for injury to or death of persons or for loss or destruction of or damage to property in any manner arising from or growing out of (or alleged to have arisen from or to have grown out of) any entry or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvements thereon by or under the Utility, unless Talking Rock Golf or Developer, as the case may be, desires to defend or to participate in the defense of any such suit or proceeding. Utility shall pay and satisfy any judgment which be rendered in any such suit or proceeding against Talking Rock Golf or Developer, together with all costs and expenses incident thereto, including reasonable attorneys fees;

(d) Utility shall protect and keep the title of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area free and clear of and from any and all mechanics', laborers', materialmen's or other liens, claims, clouds and encumbrances in any manner arising from or growing out of any entry or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvements thereon, by or under Utility, or any work or operations conducted upon the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area by or under Utility.

6. RIGHTS OF TALKING ROCK GOLF. Talking Rock Golf reserves the right to use and enjoy the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area to the fullest extent possible, provided that such use and enjoyment do not unreasonably interfere with Utility's exercise of the rights granted herein.

7. ASSIGNMENT. Utility may assign its rights and delegate its obligations under this Easement only to the successors in interest to Utility who are obligated to provide domestic water service to the Property, provided that written notice of such assignment is given to Developer and Talking Rock Golf prior to the effective date of the assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Easement, and provided, further, that the assignee has assumed in writing Utility's obligations under the Well Agreement and has agreed to be bound by the Well Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder and under the Well Agreement, Utility shall be released from all obligations arising under this

Easement after the effective date of the assignment and assumption.

8. DEFAULT. If any party breaches, or defaults under, this Easement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under any of paragraphs 4(b) or 4(c), or with respect to a breach or default by any party under paragraph 4(e), or for a period of ten (10) days with respect to any other breach or default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance. The parties shall provide written notice to each other as provided in the Well Agreement.

9. WARRANTY OF TITLE. Talking Rock Golf covenants that it is the owner of the Wellsite Easement Parcel and the Access Area, subject to existing matters of record, including the Deed, and the rights of parties in possession, and has the right, title and capacity to grant the easements described in this instrument. Notwithstanding the foregoing, Talking Rock Golf warrants that title to the Wellsite Easement Parcel and the Access Area is free and clear of any monetary liens, encumbrances or security interests (other than taxes and assessments not yet due and payable) except those monetary liens, encumbrances and security interests the holders of which have consented to the grant of this Easement.

10. NO MODIFICATION; GOVERNING INSTRUMENT. By the execution of this instrument, the parties do not intend to modify, amend or effect the Well Agreement in any respect. In the event of any conflict between the terms of this instrument and the terms of the Well Agreement, the terms of the Well Agreement shall govern and prevail.

11. EFFECT OF AGREEMENT. This Easement runs with the land, is a burden upon the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area, is binding upon Talking Rock Golf and all persons having or acquiring any interest in the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, and runs to the benefit of Talking Rock Golf, Developer and their successors and assigns. This Easement runs and inures to the benefit of, and is binding upon, Utility, its successors and assigns, subject to the terms of paragraph 7. This Easement will not operate to dedicate any property for public use.

DATED: This ____ day of _____, 2003.

TALKING ROCK GOLF, L.L.C.,
an Arizona limited liability company

By: _____
Its: _____

DEVELOPER:

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., a
Nevada corporation
Its Manager

By: _____
Its _____

ACCEPTED AND AGREED TO:

ICR WATER USERS ASSOCIATION,
an Arizona public service corporation

By: _____
Name: _____
Title: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of TALKING
ROCK GOLF, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

SUPPLEMENTAL REBUTTAL

EXHIBIT 2

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted (without Golf Course)

Exhibit 2
Proforma Schedule A-1
Page 1
Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$	(576,986)
2			
3	Adjusted Operating Income		(97,694)
4			
5	Current Rate of Return		N/A
6			
7	Required Operating Income Operating Margin = 14.53%	\$	53,489
8			
9	Required Rate of Return on Fair Value Rate Base		N/A
10			
11	Operating Income Deficiency	\$	151,183
12			
13	Gross Revenue Conversion Factor		1.0000
14			
15	Increase in Gross Revenue		
16	Requirement	\$	151,183
17			
18	% Increase over Adjusted Revenues		69.73%
19			

COMPARISON TO COMPANY REBUTTAL FILING WHICH INCLUDES GOLF COURSE

23	Increase in Gross Revenue		
24	Requirement per Rebuttal Filing	\$	88,547
25			
26	% Increase over Adjusted Revenues per Rebuttal Filing		33.03%
27			
28			
29	Dollar Increase over Rebuttal Filing	\$	62,635
30			

SUPPORTING SCHEDULES:

Rebuttal B-1
Proforma Schedule C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement (without Golf Course)

Line No.	ADJUSTMENT LABEL-->	1 Remove Golf Course Revenues	2 Wheeling Charges	3 Pumping Power Costs	4 Intentionally Left Blank	5 Intentionally Left Blank	Adjusted Results	Required Rate Increase	Required with Rate Increase
1	Revenues	\$ 214,643	(4,277)				\$ 210,367	\$ 151,183	\$ 361,549
2	Metered Water Revenues								
3	Unmetered Water Revenues	53,403					6,459		6,459
4	Other Water Revenues	268,047	(4,277)				216,826	151,183	368,009
5									
6	Operating Expenses								
7	Salaries and Wages - Employees	6,388					6,388		6,388
8	Purchased Water	16,239					27,654		27,654
9	Purchased Power			11,415					
10	Fuel for Power Production								
11	Chemicals	2,516					2,516		2,516
12	Water Testing	4,029					4,029		4,029
13	Repairs and Maintenance	14,389					14,389		14,389
14	Office Expense	1,720					1,720		1,720
15	Contractual Services - Accounting	32,549					32,549		32,549
16	Contractual Services - Legal	513					513		513
17	Contractual Services - Operations	86,227					86,227		86,227
18	Contractual Services - Other								
19	Rental of Building/Real Property								
20	Rental of Equipment								
21	Transportation Expenses	3,600					3,600		3,600
22	Telephone								
23	Insurance	751					751		751
24	Reg. Comm. Exp. - Amortization of Rate Case	8,995					8,995		8,995
25	Bad Debt Expense	20,000					20,000		20,000
26	Miscellaneous Expenses								
27	Depreciation Expenses	235					235		235
28	Property Taxes	93,748					93,748		93,748
29	Payroll Taxes	11,160					11,160		11,160
30	Sales Tax Expense								
31	Income Tax								
32		45					45		45
33	Total Operating Expenses	\$ 303,105	\$ -	\$ 11,415	\$ -	\$ -	\$ 314,520	\$ -	\$ 314,520
34	Operating Income	\$ (35,058)	\$ (4,277)	\$ (11,415)	\$ -	\$ -	\$ (97,694)	\$ 151,183	\$ 53,489
35	Other Income (Expense)								
36	Interest Income	180					180		180
37	Other Income	779					779		779
38	Interest Expense								
39	Other Expense								
40									
41	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ -	\$ 959	\$ -	\$ 959
42	Net Profit (Loss)	\$ (34,099)	\$ (4,277)	\$ (11,415)	\$ -	\$ -	\$ (96,735)	\$ 151,183	\$ 54,448
43									

RECAP SCHEDULES:
Proforma A-1

SUPPORTING SCHEDULES:
Rebuttal C-1
Proforma C-2

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Exhibit 2
Proforma Schedule C-2
Page 1
Witness: Bourassa

Line
No.

1 Remove Golf Course Revenues

2

3

4 Golf Course Revenues (Expense Reimbursements and Wheeling Charges)

\$ 46,944

5

6

7 Adjustment to Revenues/Expenses

\$ (46,944)

8

9

10

11

12

13

14

15

16

17

18

19

20

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit 2
Proforma Schedule C-2
Page 2
Witness: Bourassa

Line No.				
1	<u>Remove Wheeling Charges For Golf Course Water and Construction Water.</u>			
2				
3				
4	Golf Course Water Wheeling Charges			
5	Quantity of Water Delivered in acre feet	383.69		
6	Wheeling Charge per acre foot	\$ 10.00		
7	Total Wheeling Charges		\$ 3,837	
8				
9				
10	Construction Water Wheeling Charges			
11	Quantity of Water Delivered in acre feet	43.99		
12	Wheeling Charge per acre foot	\$ 10.00		
13	Total Wheeling Charges		\$ 440	
14				
15	Total Wheeling Charges		<u>\$ 4,277</u>	
16				
17				
18	Adjustment to Revenues/Expenses		<u>\$ (4,277)</u>	
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit 2
Proforma Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	<u>Purchased Power Costs Paid By Talking Rock Golf Course but Attributed to TR Customers and Not Golf Course</u>		
2			
3			
4	TRR Pumping Station	\$	34,241
5	TRR Well Field		38,480
6			
7			
8	Total Power Costs Paid By Golf Course	\$	<u>72,721</u>
9			
10	Gallons Delivered to Talking Rock G.C., Contrction Water, and ICR Customers (in 1,000's)		148,867
11	Cost per 1,000 gallons	\$	0.4885
12			
13	Gallons delivered to ICR Customers (in 1,000's) during test year		9,506
14	Cost per 1,000 gallons	\$	0.4885
15	Allocated Power Costs Paid by Talking Rock Golf Course	\$	4,644
16			
17	Double Adobe Station (100% attributable to ICR but paid by Talking Rock G. C.)	\$	6,771
18			
19	Total Power Costs Paid By Golf Course Attributed to ICR Customers	\$	<u>11,415</u>
20			
21			
22	Adjustment to Revenues/Expenses	\$	<u>11,415</u>
23			
24			
25			
26			
27			
28			
29			
30			

SUPPLEMENTAL REBUTTAL
EXHIBIT 3

TALKING ROCK RANCH

Gallons Pumped and Sold

Rebuttal Exhibit 3

MONTH	Well #1	PUMPED Well #2	Well #3	TOTAL PUMPED	SOLD	UNACCOUNTED	Water Sent to Golf Course
JAN 2006	2,166,000	226,000	3,613,000	6,005,000	5,195,171	809,829	4,857,000
FEB	2,043,000	178,000	3,806,000	6,027,000	4,982,254	1,044,746	4,584,000
MAR	1,191,000	0	2,583,000	3,774,000	3,082,761	691,239	2,759,000
APR	7,045,000	130,000	3,135,000	10,310,000	9,985,147	324,853	9,536,000
MAY	17,557,000	2,046,000	7,255,000	26,858,000	25,303,403	1,554,597	24,058,000
JUN	13,769,000	5,490,000	9,608,000	28,867,000	25,204,564	3,662,436	23,745,000
JUL	6,670,000	759,000	7,207,000	14,636,000	12,956,572	1,679,428	11,764,000
AUG	10,378,000	242,000	5,205,000	15,825,000	14,103,820	1,721,180	12,940,000
SEP	6,951,000	69,000	5,007,000	12,027,000	10,775,088	1,251,912	10,045,000
OCT	4,580,000	215,000	7,231,000	12,026,000	12,211,474	-185,474	11,321,000
NOV	3,860,000	224,000	2,794,000	6,878,000	6,813,662	64,338	6,058,000
DEC 2006	2,672,000	21,000	2,941,000	5,634,000	3,918,384	1,715,616	3,359,000
AC FT.	78,882,000	9,600,000	60,385,000	148,867,000	134,532,300	14,334,700	125,026,000
	242.1	29.5	185.3	456.9	412.9	44.0	383,691 AC. FT.

Residential Use
Total 9,506,390 29,174 AC. FT.
134,532,390 412,865 AC. FT.

SUPPLEMENTAL REBUTTAL

EXHIBIT 4

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Operating Margins at Present Rates

Exhibit

Rebuttal Schedule

Page 1

Witness: Bourassa

G-1

Const. &
Golf Course

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"
1	Water Revenues and	\$ 204,571	\$ 148,282		\$ 15,942		\$ 35,492			\$ 4,854
2	Revenue Annualizations	9,738	1,547		1,344		6,847			
3	Reconciliation BC to C-1	336	336							
4	Misc. Revenue (a)	64,818	5,927		355		177			58,359
5	Total Revenues	\$ 279,462	\$ 156,092	\$ -	\$ 17,640	\$ -	\$ 42,517	\$ -	\$ -	\$ 63,213
6										
7	Operating Expenses (b)	\$ 209,566	\$ 149,537	\$ -	\$ 14,572	\$ -	\$ 25,552	\$ -	\$ -	\$ 19,906
8	Depreciation and									
9	Amortization (b)	93,748	56,147		8,032		13,202			16,366
10	Property Tax (c)	11,160	6,233		704		1,698			2,524
11	Income Tax (d)	45	72		7		(3)			(31)
12	Total Operating Expenses	\$ 314,519	\$ 211,989	\$ -	\$ 23,316	\$ -	\$ 40,450	\$ -	\$ -	\$ 38,765
13	Operating Income	\$ (35,057)	\$ (55,897)	\$ -	\$ (5,675)	\$ -	\$ 2,067	\$ -	\$ -	\$ 24,448
14	Interest Expense (e)									
15	Net Income	\$ (35,057)	\$ (55,897)	\$ -	\$ (5,675)	\$ -	\$ 2,067	\$ -	\$ -	\$ 24,448
16	Rate Base (f)	\$ (576,987)	\$ (307,668)	\$ -	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ -	\$ (131,542)
17	Operating margin (g)	-12.54%	-35.81%	0.00%	-32.17%	0.00%	4.86%	0.00%	0.00%	38.68%

(a) Miscellaneous Revenue includes \$46,944 of golf course expense reimbursement revenues recorded during test year plus \$11,315 of power costs paid by golf cou
\$6,459 of miscellaneous revenues allocated to other meter sizes based on customer counts.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocations based on Rate Base. Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Operating Margins at Proposed Rates

Exhibit
Rebuttal Schedule
Page 1
Witness: Bourassa

G-2

Const. &
Golf Course

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"
1	Water Revenues	\$ 289,305	\$ 207,922	\$ -	\$ 22,328	\$ -	\$ 53,434	\$ -	\$ -	\$ 5,620
2	Revenue Annualizations	13,964	2,085	-	1,862	-	10,017	-	-	-
3	Reconciliation BC to C-1	(78)	(78)	-	-	-	-	-	-	-
4	Misc. Revenue (a)	64,818	5,927	-	355	-	177	-	-	58,359
5	Total Revenues	\$ 368,008	\$ 215,855	\$ -	\$ 24,545	\$ -	\$ 63,628	\$ -	\$ -	\$ 63,979
6										
7	Operating Expenses (b)	\$ 209,566	\$ 149,537	\$ -	\$ 14,572	\$ -	\$ 25,552	\$ -	\$ -	\$ 19,906
8	Depreciation and									
9	Amortization (b)	93,748	56,147	-	8,032	-	13,202	-	-	16,366
10	Property Tax (c)	11,160	6,546	-	744	-	1,930	-	-	1,940
11	Income Tax (d)	45	3	-	1	-	19	-	-	22
12	Total Operating Expenses	\$ 314,519	\$ 212,232	\$ -	\$ 23,349	\$ -	\$ 40,704	\$ -	\$ -	\$ 38,234
13	Operating Income	\$ 53,489	\$ 3,623	\$ -	\$ 1,196	\$ -	\$ 22,925	\$ -	\$ -	\$ 25,746
14	Interest Expense (e)	-	-	-	-	-	-	-	-	-
15	Net Income	\$ 53,489	\$ 3,623	\$ -	\$ 1,196	\$ -	\$ 22,925	\$ -	\$ -	\$ 25,746
16	Rate Base (f)	\$ (576,987)	\$ (307,668)	\$ -	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ -	\$ (131,542)
17	Operating Margin (g)	14.53%	1.68%	0.00%	4.87%	0.00%	36.03%	0.00%	0.00%	40.24%
18										
19	Percent of Total Customers		91.507%	0.000%	5.479%	0.000%	2.740%	0.000%	0.000%	0.274%
20										
21										
22										
23										
24										
25										
26										
27										
28										
29										

(a) Miscellaneous Revenue includes \$46,944 of golf course expense reimbursement revenues recorded during test year plus \$11,315 of power costs paid by golf course. \$6,459 of miscellaneous revenues allocated to other meter sizes based on customer counts.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

Allocation of Assets to Customer Classes

Exhibit

Rebuttal Schedule

Page 1

Witness: Bourassa

G-3

Line No.		5/8 x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	
	Const. & Golf Course											
	Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1)											
1	Commodity	\$ (101,483)	\$ (15,843)	\$ -	\$ (1,209)	\$ -	\$ (5,717)	\$ -	\$ (78,714)	\$ -	\$ -	
2	Demand	(563,492)	(366,160)	-	(54,814)	-	(87,703)	-	(54,814)	-	-	
3	Customer	31,378	28,713	-	1,719	-	860	-	86	-	-	
4	Service	40,107	35,480	-	2,400	-	1,738	-	488	-	-	
5	Meter	16,503	10,142	-	1,147	-	3,801	-	1,413	-	-	
6	Totals	\$ (576,987)	\$ (307,668)	\$ -	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ (131,542)	\$ -	\$ -	
7												
8												
9												
10	Net Rate Base	\$ (576,987)	\$ (307,668)	\$ -	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ (131,542)	\$ -	\$ -	

Cost of Service Study, Using Commodity Demand Method

Exhibit
Rebuttal Schedule
Page 1
Witness: Bourassa

G-4

Line No.	Operation and Maintenance Expense (from Schedule G-6, Page 1)	Totals	Allocation of Expenses to Customer Classes								Const. & Golf Course
			5/8 x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	
1	Commodity	\$ 14,141	\$ 2,208	\$ -	\$ 168	\$ -	\$ 797	\$ -	\$ -	\$ 10,968	
2	Commodity - Purchased Water	\$ 6,388	4,445	-	339	-	1,604	-	-	-	
3	Commodity - Purchased Power	27,654	19,242	-	1,469	-	6,944	-	-	-	
4	Demand	87,328	56,746	-	8,495	-	13,592	-	-	8,495	
5	Customer	71,162	65,118	-	3,899	-	1,950	-	-	195	
6	Service	-	-	-	-	-	-	-	-	-	
7	Meter	2,894	1,778	-	201	-	667	-	-	248	
8	Totals	\$ 209,566	\$ 149,537	\$ -	\$ 14,572	\$ -	\$ 25,552	\$ -	\$ -	\$ 19,906	
9											
10	Depreciaton Expense on Plant (from Schedule G-6, Page 2)										
11	Commodity	6,924	1,081	-	82	-	390	-	-	5,370	
12	Commodity - Oversizing	317	-	-	-	-	-	-	-	317	
13	Demand	78,177	50,800	-	7,605	-	12,168	-	-	7,605	
14	Demand - Oversizing	2,851	-	-	-	-	-	-	-	2,851	
15	Customer	949	868	-	52	-	26	-	-	3	
16	Service	2,272	2,010	-	136	-	98	-	-	28	
17	Meter	2,259	1,388	-	157	-	520	-	-	193	
18	Totals	\$ 93,748	\$ 56,147	\$ -	\$ 8,032	\$ -	\$ 13,202	\$ -	\$ -	\$ 16,366	

Total Expenses (excluding Income Tax and Property Taxes)

Property Taxes Allocated on Schedules G-1 & G-2

Income Tax: Allocated on Schedules G-1 & G-2

Total Expenses

Cost of Service Study, Using Commodity Demand Method Summary of Allocation of Expenses to Customer Classes

Exhibit
Rebuttal Schedule
Page 2
Witness: Bourassa

[illegible]

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Allocation of Rate Base by Function

Exhibit

Rebuttal Schedule

Page 1

Witness: Bourassa

G-5

Line No.	Adjusted	Demand	Commodity	Customer	Meter	Service	Totals
1	<u>Rate Base</u>						
2	Plant minus (Accumulated Depreciation	\$ (576,987) \$	(563,492) \$	(101,483) \$	31,378 \$	16,503 \$	40,107 \$ (576,987)
3	Contributions in Aid of Construction						
4	Advances in Aid of Construction,						
5	Meter Deposits and Deferred Income Tax)						
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
	(576,987)	(563,492)	(101,483)	31,378	16,503	40,107	(576,987)

Exhibit
Rebuttal Schedule
Page 2
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Test Year Ended December 31, 2006

Allocation of Plant Less Contributions and Advances in Aid of

Construction, Meter Deposits and Accumulated Depreciation to Functions

[illegible]

ICR Water Company Users Association

Test Year Ended December 31, 2006

Allocation of Plant, Less Contributions and Advances in Aid of

Construction, Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Rebuttal Schedule
Page 2.1
Witness: Bourassa

G-5

Line	Account	No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Demand	Commodity	Customer	Meter	Service
1	General Plant Continued										
2		347	Miscellaneous Equipment	1,495	56	1,439			1,439		
3		348	Other Tangible Plant	23,458	3,722	19,736			19,736		
4	Subtotal General Plant			\$ 35,627	\$ 4,249	\$ 31,378	\$ -	\$ -	\$ 31,378	\$ -	\$ -
5	Total Plant			\$ 5,331,977	\$ 625,682	\$ 4,706,295	\$ 4,172,967	\$ 424,790	\$ 31,378	\$ 26,778	\$ 50,382
6				(1,330,469)		(1,330,469)	(1,197,422)	(133,047)			
7	Contributions in Aid of Construction			(3,932,263)		(3,932,263)	(3,539,037)	(393,226)		(10,275)	(10,275)
8	Advances in Aid of Construction			(20,550)		(20,550)					
9	Meter Deposits										
10	Deferred Income Tax										
11											
12	Totals			\$ 48,695	\$ 625,682	\$ (576,987)	\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107
13	Rate Bases (Plant -AIAC, CIAC, Meter Deposits & Accum. Depr.)				\$ (576,987)		\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Functions

G-6

Line No.	Description	Golf Course Demand			ICR Customers Only			Golf Course Commodity			Customer			Meter			Service			Totals
		Adjusted	Demand	Over-sizing	Commodity	Purchased Wtr Commodity	Purchased Pwr Commodity	Over-sizing	Commodity	Over-sizing	Commodity	Over-sizing	Commodity	Over-sizing	Commodity	Over-sizing	Commodity	Over-sizing	Commodity	
1	Salaries and Wages	6,388	-	-	-	6,388	-	-	-	-	-	-	-	-	-	-	-	-	-	6,388
2	Purchased Water (a)	27,654	-	-	-	-	27,654	-	-	-	-	-	-	-	-	-	-	-	-	27,654
3	Purchased Power (b)	2,516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,516
4	Chemicals	14,389	11,511	-	2,516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,389
5	Repairs and Maintenance (c)	2,471	-	-	1,439	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,471
6	Office Supplies and Expense	46,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,550
7	Outside Services	72,739	54,191	-	6,183	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72,739
8	Outside Services - A Quality Water (d)	4,029	3,626	-	403	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,029
9	Water Testing	3,600	-	-	3,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,600
10	Rents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Transportation Expenses	8,995	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,995
12	Insurance - General Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Insurance - health and Life	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Regulatory Commission Expense - Rate Case	20,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,000
15	Miscellaneous Expense	235	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	235
16	Depreciation Expense (e)	93,748	78,177	2,851	6,924	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93,748
17	Taxes Other Than Income	11,160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,160
18	Property Taxes, Allocated on Schedules G-1 & G-2	45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45
19	Income Tax, Allocated on Schedules G-1 & G-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20																				
21	Total	\$ 314,519	\$ 165,505	\$ 2,851	\$ 21,064	\$ 6,388	\$ 27,654	\$ 317	\$ 72,111	\$ 5,153	\$ 2,272	\$ 303,314								

(a) Purchased water cost is attributed to ICR customers only.
 (b) Golf Course pays 100% of power costs for all three wells and pumping station on the Talking Rock Ranch system. Included in Study is \$11,315 of additional power costs paid for by Golf Course that is attributed to ICR customers.
 (c) Repairs and Maintenance allocation factors computation shown on Schedule G-7, Page 2.1
 (d) A Quality Water contract costs, factors and allocation computation shown on Schedule G-7, Page 2.1
 (e) Depreciation allocation computed on Schedule G-6, Page 2.

ICR Water Company Users Association
Test Year Ended December 31, 2006
Allocation of Depreciation Expense to Functions

Exhibit
Rebuttal Schedule
Page 2
Witness: Bourassa

G-6

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1		Intangible									
2	301.00	Organization	\$ -		\$ -						
3	302.00	Franchises	-		-						
4											
5		Subtotal Intangible	\$ -		\$ -						
6											
7		Source of Supply & Pumping Plant									
8	303	Land and Land Rights	\$ -	0.000%	\$ -						
9	304	Structures and Improvements	398,048	3.330%	13,255	13,255	13,255				
10	305	Collecting and Impounding Res.	-	2.500%	-	-	-				
11	306	Lakes, Rivers, Other Intakes	-	2.500%	-	-	-				
12	307	Wells and Springs	656,998	3.330%	21,878	21,878	19,690	2,188			
13	308	Infiltration Galleries and Tunnels	-	6.670%	-	-	-				
14	309	Supply Mains	-	2.000%	-	-	-				
15	310	Power Generation Equipment	-	5.000%	-	-	-				
16	311	Electric Pumping Equipment	1,808	12.500%	226	226	203	23			
17		Subtotal Source of Supply & Pumping Plant	\$ 1,056,854		\$ 35,359	\$ 35,359	\$ 33,149	\$ 2,210			
18											
19		Water Treatment									
20	320	Water Treatment Equipment	106,689	3.330%	3,553	3,553	3,197	355			
21		Subtotal Water Treatment	\$ 106,689		\$ 3,553	\$ 3,553	\$ 3,197	\$ 355			
22											
23		Transmission and Distribution Plant									
24	330	Distribution Reservoirs & Standpipe	\$ -	2.220%	\$ -						
25	331	Transmission and Distribution Mains	3,879,062	2.000%	77,581	77,581	69,823	7,758			
26	331	Transmission and Distribution Mains - Over-sizing (a)	158,395	2.000%	3,168	3,168	2,851	317			
27	333	Services	68,233	3.330%	2,272	2,272					2,272
28	334	Meters	27,117	8.330%	2,259	2,259				2,259	
29	335	Hydrants	-	2.000%	-	-	-				
30	336	Backflow Prevention Devices	-	6.670%	-	-	-				
31	339	Other Plant and Miscellaneous Equipment	-	6.670%	-	-	-				
32		Subtotal Transmission and Distribution Plant	\$ 4,132,807		\$ 85,280	\$ 85,280	\$ 72,674	\$ 8,075		\$ 2,259	\$ 2,272
33											
34		General Plant									
35	340	Office Furniture and Fixtures	\$ 141	6.670%	\$ 9	\$ 9	-	-	\$ 9	\$ -	\$ -
36	341	Transportation Equipment	-	20.000%	-	-	-	-	-	-	-
37	342	Stores Equipment	-	4.000%	-	-	-	-	-	-	-
38	343	Tools and Work Equipment	-	5.000%	-	-	-	-	-	-	-
39	344	Laboratory Equipment	-	10.000%	-	-	-	-	-	-	-
40	345	Power Operated Equipment	-	5.000%	-	-	-	-	-	-	-
41	346	Communications Equipment	10,533	10.000%	1,053	1,053	263		790		

Exhibit
Rebuttal Schedule
Page 2.1
Witness: Bourassa

[illegible]

ICR Water Company Users Association

Test Year Ended December 31, 2006

Summary of Commodity - Demand Method Functions Factors

Exhibit
Rebuttal Schedule G-7
Page 1
Witness: Bourassa

Line
No.

	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	Totals
1 Description									
2 Commodity	15.611%	0.000%	1.191%	0.000%	5.634%	0.000%	0.000%	77.564%	100.00%
3 Commodity - Purch. Wtr	69.580%	0.000%	5.310%	0.000%	25.109%	0.000%	0.000%	0.000%	0.00%
4 Commodity - Purch. Pwr	69.580%	0.000%	5.310%	0.000%	25.109%	0.000%	0.000%	0.000%	100.00%
5 Commodity - Over-sizing	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	100.000%	100.00%
6 Demand	64.981%	0.000%	9.728%	0.000%	15.564%	0.000%	0.000%	9.728%	100.00%
7 Demand - Over-sizing	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	100.000%	100.00%
8 Customer	91.507%	0.000%	5.479%	0.000%	2.740%	0.000%	0.000%	0.274%	100.00%
9 Services	88.463%	0.000%	5.985%	0.000%	4.334%	0.000%	0.000%	1.218%	100.00%
10 Meters	61.456%	0.000%	6.951%	0.000%	23.034%	0.000%	0.000%	8.559%	100.00%

ICR Water Company Users Association
Test Year Ended December 31, 2006
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant and Depreciation Expense Allocations Functions

Exhibit
Rebuttal Schedule G-7
Page 2
Witness: Bourassa

Line

No.

1					
2	<u>Description</u>	<u>Total</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
3	Wells	1.00	0.90	0.10	
4	Pumps & Equipment	1.00	0.90	0.10	
5	Trans. & Dist. Mains	1.00	0.90	0.10	
6	Customer	1.00			1.00
7	Services	1.00			1.00
8	Meters	1.00			1.00
9	Fire Hydrants	1.00			1.00
10	Transportation Equip.	1.00	0.25		0.75
11	Office Furniture	1.00			1.00
12	Communication Equip.	1.00	0.25		0.75
13	Water Treatment Equip.	1.00	0.90	0.10	
14					
15					
16					
17					

Exhibit
Rebuttal Schedule G-7
Page 2.1
Witness: Bourassa

No.

1	<u>Repairs and Maintenance Allocation Factors</u>	
2	Repairs and Maintenance Demand	80.00%
3	Repairs and Maintenance Commodity	10.00%
4	Repairs and Maintenance Meters	10.00%
5	Repairs and Maintenance Customer	0.00%
6		<u>100.00%</u>

9 A Quality Water Contract Allocation Factors

10						
11	<u>Scope of Work</u>	<u>Functions</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
12	Meter Reading	Customer			100%	
13	Operations	Demand/Commodity	90%	10%		
14	Routine Maintenance	Demand/Commodity/Meter	80%	10%	0%	10%
15	Regulatory Compliance	Customer			100%	

17								
18	<u>Scope of Work</u>	<u>Functions</u>	<u>Weight</u>	<u>Cost</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
19	Meter Reading	Customer	0.10	\$ 7,274	\$ -	\$ -	\$ 7,274	\$ -
20	Operations	Demand/Commodity	0.65	47,280	42,552	4,728	-	-
21	Routine Maintenance	Demand/Commodity/Meter	0.20	14,548	11,638	1,455	-	1,455
22	Regulatory Compliance	Customer	0.05	3,637	-	-	3,637	-
23		Totals	1.00	\$ 72,739	\$ 54,191	\$ 6,183	\$ 10,911	\$ 1,455
24				% of Total	74.50%	8.50%	15.00%	2.00%

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Development of Class Allocation Factors

Exhibit
Rebuttal Schedule G-7
Page 3
Witness: Bourassa

COMMODITY ALLOCATION FACTOR

Meter Size	(a) Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	15.61%
3/4"	-	0.00%
1"	2,141	1.19%
1-1/2"	-	0.00%
2"	10,122	5.63%
3"	-	0.00%
4"	-	0.00%
6"	139,361	77.56% (c)
8"	-	0.00%
Totals	179,672	100.00%

DEMAND ALLOCATION FACTOR

Meter Size	Number of Meters and/or Services	Equiv- alent Weight	Equivalent Number of Meters and/or Services	Percent of Total
5/8" x 3/4"	334	1.0	334	64.98%
3/4"	-	1.5	0	0.00%
1"	20	2.5	50	9.73%
1-1/2"	-	5.0	0	0.00%
2"	10	8.0	80	15.56%
3"	-	16.0	0	0.00%
4"	-	25.0	0	0.00%
6"	1	50.0	50	9.73%
8"	-	80.0	0	0.00%
Totals	365		514	100.00%

CUSTOMER ALLOCATION FACTOR

Meter Size	Number of Meters	Percent of Total
5/8" x 3/4"	334	91.51%
3/4"	-	0.00%
1"	20	5.48%
1-1/2"	-	0.00%
2"	10	2.74%
3"	-	0.00%
4"	-	0.00%
6"	1	0.27%
8"	-	0.00%
10"	-	0.00%
Totals	365	100.00%

SERVICES ALLOCATION FACTOR (b)

Meter Size	Number of Services	Install- ation Cost	Weighted Number of Services	Percent of Total
5/8" x 3/4"	334	\$ 385.00	128,590	88.46%
3/4"	0	385.00	0	0.00%
1"	20	435.00	8,700	5.99%
1-1/2"	0	470.00	0	0.00%
2"	10	630.00	6,300	4.33%
3"	0	845.00	0	0.00%
4"	0	1,230.00	0	0.00%
6"	1	1,770.00	1,770	1.22%
8"	0	1,770.00	0	0.00%
10"	0	1,770.00	0	0.00%
Totals	365		145,360	100.00%

METER ALLOCATION FACTOR (b)

Meter Size	Number of Meters	Meter Cost	Weighted Dollars of Meters	Percent of Total
5/8" x 3/4"	334	\$ 135.00	45,090	61.46%
3/4"	0	215.00	0	0.00%
1"	20	255.00	5,100	6.95%
1-1/2"	0	465.00	0	0.00%
2"	10	1,690.00	16,900	23.03%
3"	0	2,265.00	0	0.00%
4"	0	3,245.00	0	0.00%
6"	1	6,280.00	6,280	8.56%
8"	0	6,280.00	0	0.00%
10"	0	6,280.00	0	0.00%
Totals	365		73,370	100.00%

(PURCHASED POWER AND WATER ONLY)

COMMODITY ALLOCATION FACTOR

Meter Size	(a)(d) Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	69.58%
3/4"	-	0.00%
1"	2,141	5.31%
1-1/2"	-	0.00%
2"	10,122	25.11%
3"	-	0.00%
4"	-	0.00%
6"	-	0.00%
8"	-	0.00%
Totals	40,311	100.00%

- (a) Includes customer and gallon sold annualization.
(b) Meter and Service Line cost from Arizona Corporation Commission Memo of June 30, 2004 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.
(c) Actual gallons delivered to Golf Course from ICR owned well (Well #3) was 50,878,610 gallons. 125,026,000 gallons was delivered to Golf Course from all three wells, including the two wells not currently owned by ICR. There was 14,334,700 gallons of unaccounted water. Quantity used for 6 inch meter includes the Golf Course water plus unaccounted water.
(d) Golf Course pays 100% of power costs for all three wells and pumping stations on the Talking Rock Ranch system. \$11,315 of power costs paid for by Golf Course is attributed to ICR customers and is included in study. Purchased water costs are attributed to ICR customers only.

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study Using Commodity / Demand Method

Computation of Monthly Minimums for Customer, Service, Meter

Using Function Costs and Expenses

Excluding Golf Course

Exhibit
Rebuttal Schedule
Page 1
Witness: Bourassa

G-8

Line No.		Customer	Service	Meter
1	Operating Margin	8,686	225	473
2	Misc. Revenues	5,927		
3	Customer, Services and Meter Expenses (From Sch. G-4, Page 2)	71,913	2,244	4,712
4	Property Taxes	8,636		
5	Income Taxes	23		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)	95,185	2,470	5,185
7				
8	Customer Charge			
9	Number of Bills =	4,368		
10				
11	Charge per Bill	\$ 21.79		
12	(Customer Revenue Requirement divided by Annualized Number of Bills)			
13				
14	Service Line and Meter Charge			
15	Equivalent 5/8 Meters		5,568	5,568
16				
17	Charge per Equivalent Meter		\$ 0.44	\$ 0.93
18				
19				
20	CUSTOMER CHARGE:			
21	Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)			
22	Charge per Bill	\$ 21.79		
23	Charge per Equivalent Service Line	0.44		
24	Charge per Equivalent Meter	0.93		
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)			
26	Monthly Minimum for 5/8 Inch Meter, <u>WITHOUT</u> Demand Charge Included	\$ 23.17		

Line No.	DEMAND CHARGE:	5/8" Demand Charge	Meter Ratio	Demand Charge
1				
2	Operating Margin		1.0	31.57
3	Demand Expenses, from Schedule G-6, Page 1		1.5	47.35
4			2.5	78.92
5	Totals		5.0	157.84
6	Total Revenue Requirement / Demand Component		8.0	252.54
7	Equivalent Number of 5/8 Meters billings		16.0	505.09
8	Demand Charge for 5/8 Inch Meter		25.0	789.20
9			50.0	1,578.40
10				
11	<u>Demand Charge Per Equivalent</u>			
12	5/8 Inch Meter	\$	31.57	31.57
13	3/4 Inch Meter	\$	31.57	31.57
14	1 Inch Meter	\$	31.57	31.57
15	1 1/2 Inch Meter	\$	31.57	31.57
16	2 Inch Meter	\$	31.57	31.57
17	3 Inch Meter	\$	31.57	31.57
18	4 Inch Meter	\$	31.57	31.57
19	6 Inch Meter	\$	31.57	31.57
20				
21				

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation Demand Charge and Commodity
 Excluding Golf Course

Exhibit
 Rebuttal Schedule
 Page 3
 Witness: Bourassa

G-8

Line No.		Commodity	Customer	Service	Meter	Demand
1	Operating Margin	6,841	13,079	396	831	26,366
2	Less: Miscellaneous Revenues		6,459			
3						
4	Expenses (From Sch. G-6, Page 1)	38,768	71,913	2,244	4,712	149,405
5	Property taxes		8,636			
6	Income Taxes		23			
7	Total Revenue Requirement by function	45,609	87,192	2,641	5,543	175,770
8	Gallons Sold (Zero Gallons in Minimum) (G-7, page 3)	40,311				
9	Computed Commodity Rate	<u>\$ 1.1314</u>				
10	Annualized Number of Bills		4,368			
11	Equivalent Meters and Service Lines			5,568	5,568	5,568
12	Customer Charge (line 18 divided by line 21)		<u>\$ 19.96</u>			
13	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)			<u>\$ 0.47</u>	<u>\$ 1.00</u>	<u>\$ 31.57</u>
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer					
15	Service Line, Meter and Demand Charge on Lines 23 & Line 24)					<u>\$ 53.00</u>

5/8" Monthly Minimum	Meter Ratio	Demand Charge
\$ 53.00	1.0	53.00
\$ 53.00	1.5	79.50
\$ 53.00	2.5	132.50
\$ 53.00	5.0	265.00
\$ 53.00	8.0	423.99
\$ 53.00	16.0	847.99
\$ 53.00	25.0	1,324.98
\$ 53.00	50.0	2,649.96
\$ 53.00	80.0	4,239.94

Monthly Minimum

5/8 Inch Meter
 3/4 Inch Meter
 1 Inch Meter
 1 1/2 Inch Meter
 2 Inch Meter
 3 Inch Meter
 4 Inch Meter
 6 Inch Meter
 8 Inch Meter

28
 29
 30
 31

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study Using Commodity / Demand Method
Computation Demand Charge and Commodity
Excluding Golf Course

Line No.		Total Rev. Req.	%	Portion of Rev. Req.
1	Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate			
2				
3	Revenue Requirements Collected via Commodity Charge			
4				
5				
6	Customer, Service, and Meter Costs	\$ 95,375	45%	\$ 42,919
7	Demand Costs	175,770	45%	79,097
8	Commodity Costs	45,609	100%	45,609
9	Total Costs to be Collected via Commodity			\$ 167,625
10	Gallons Sold			40,311
11				
12	Commodity Charge (per 1,000 gallons)			\$ 4,158
13				
14	Revenue Requirement Collected			
15				
16	Monthly Minimum 5/8 Meter			
17	Total Revenues Requirement			\$ 316,755
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			(167,625)
19	Balance to be Recovered through Monthly Minimum			\$ 149,130
20				
21	Number of Equivalent 5/8 Inch Meter Billings			5,568
22				
23	Computed Monthly Minimum 5/8 Inch Meter			\$ 26.78
24				
25				
26				
27	Meter Size	5/8" Minimum	Meter Ratio	Monthly Minimum
28	5/8 Inch Meter	\$ 26.78	1.0	26.78
29	3/4 Inch Meter	\$ 26.78	1.5	40.18
30	1 Inch Meter	\$ 26.78	2.5	66.96
31	1 1/2 Inch Meter	\$ 26.78	5.0	133.92
32	2 Inch Meter	\$ 26.78	8.0	214.27
33	3 Inch Meter	\$ 26.78	16.0	428.54
34	4 Inch Meter	\$ 26.78	25.0	669.59
35	6 Inch Meter	\$ 26.78	50.0	1,339.17
36	8 Inch Meter	\$ 26.78	80.0	2,142.68
37	10 Inch Meter	\$ 26.78		
38				

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Customer, Service, Meter
 Using Function Costs and Expenses
Golf Course Only

Line No.		Customer	Service	Meter
1	Operating Margin	1,454	19	297
2	Misc. Revenues	-		
3	Customer, Services and Meter Expenses (From Sch. G-6, Page 1)	198	28	441
4	Property Taxes	1,940		
5	Income Taxes	22		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)	3,614	46	738
7				
8	Customer Charge			
9	Number of Bills =	12		
10				
11	Charge per Bill	\$ 301.13		
12	(Customer Revenue Requirement divided by Annualized Number of Bills)			
13				
14	Service Line and Meter Charge			
15	Equivalent 6 Inch Meter (Golf Course)			
16				
17	Charge per Equivalent Meter			
18				
19				
20	CUSTOMER CHARGE:			
21	Monthly Minimum for 6 Inch Meter (with no water included in Minimum or Demand Charge)			
22	Charge per Bill	\$ 301.13		
23	Charge per Equivalent Service Line	3.86		
24	Charge per Equivalent Meter	61.50		
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)			
26	Monthly Minimum for 6 Inch Meter, WITHOUT Demand Charge Included	\$ 366.48		

1	times	12	12
		\$ 3.86	\$ 61.50

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Demand Charge
 Golf Course Only

Exhibit G-9
 Rebuttal Schedule
 Page 2
 Witness: Bourassa

Line No.	DEMAND CHARGE:	
1		
2	Operating Margin	12,761
3		
4	Demand Expenses, from Schedule G-6, Page 1	18,951
5		
6	Totals	31,712
7	Total Revenue Requirement / Demand Component	
8	Equivalent Number of 6 Inch Meter (Golf Course) billing	12
9	Demand Charge for 6 Inch Meter (Golf Course)	\$ 2,642.64
10		
11		
12		
13		
14		
15		

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study Using Commodity / Demand Method

Computation Demand Charge and Commodity

Golf Course Only

Exhibit
Rebuttal Schedule
Page 3
Witness: Bourassa

G-9

Line No.		Commodity	Customer	Service	Meter	Demand
1	Operating Margin	11,215	1,454	19	297	12,761
2	Less: Miscellaneous Revenues					
3						
4	Expenses (From Sch. G-6, Page 1)	16,655	198	28	441	18,951
5	Property taxes		1,940			
6	Income Taxes		22			
7	Total Revenue Requirement by function	27,870	3,614	46	738	31,712
8	Gallons Sold (Zero Gallons in Minimum) (G-7, page 3)	139,361				
9	Computed Commodity Rate (per 1,000 gallons)	\$ 0.2000				
10	Computed Commodity Rate (per acre foot)	\$ 65.17				
11						
12	Annualized Number of Bills		12			12
13	Equivalent Meters and Service Lines			12	12	
14	Customer Charge (line 18 divided by line 21)	\$ 301.13				
15	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)	\$	3.86	\$	61.50	\$ 2,642.64
16	Total Monthly Minimum Charge for a 6 Inch Meter (Sum of Customer					
17	Service Line, Meter and Demand Charge on Lines 23 & Line 24)					\$ 3,009.12

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation Demand Charge and Commodity
 Excluding Golf Course

Exhibit
 Rebuttal Schedule
 Page 4
 Witness: Bourassa

G-9

Line No.		Total Rev. Req.	% of Costs	Portion of Rev. Req.
1	Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate			
2				
3	<u>Revenue Requirements Collected via Commodity Charge¹</u>			
4				
5		4,398	45%	\$ 1,979
6	Customer, Service, and Meter Costs			
7	Demand Costs	31,712	45%	14,270
8	Commodity Costs	27,870	100%	27,870
9	Total Costs to be Collected via Commodity			<u>\$ 44,119</u>
10	Gallons Sold			<u>139,361</u>
11				
12	Commodity Charge (per 1,000 gallons)			<u>\$ 0.317</u>
13				
14	Commodity Charge (per acre foot)			<u>\$ 103.29</u>
15				
16	<u>Revenue Requirement Collected via Monthly Minimum</u>			
17				
18	Total Revenues Requirement			\$ 63,979
19	Less: Portion of Revenue Requirement Collected via Commodity Charge			(44,119)
20	Balance to be Recovered through Monthly Minimum			<u>\$ 19,860</u>
21				
22	Number of Equivalent 5/8 Inch Meter Billings			12
23				
24	Computed Monthly Minimum 6 Inch Meter			<u>\$ 1,655.02</u>
25				
26				
27				

¹ Assumes golf course continues to pay it share of power costs form wells and pumping related to the water delivered to it.

Line No. 28 29 30 31 32 33 34 35 36 37 38 39 40 41

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Comparison of Proposed Rates to Computed Costs
 For a 5/8 Inch Meter (With Required Operating Margin)

Exhibit
 Rebuttal Schedule
 Page 1
 Witness: Bourassa

G-10

Line No.	Water Usage	Revenues					Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	Total Charges & Costs	Revenues minus Total	(Col. 2 - Col. 8)
		Monthly Minimum	Commodity	Total	Charges	Charges									
1	0	\$ 26.20	\$ -	\$ 26.20	\$ 31.57	\$ 19.96	\$ 0.47	\$ 1.00	0	\$ 53.00	\$ (26.80)				
2	1,000	26.20	2.98	29.18	31.57	19.96	0.47	1.00	1.131	54.13	(24.95)				
3	2,000	26.20	5.97	32.17	31.57	19.96	0.47	1.00	2.263	55.26	(23.09)				
4	3,000	26.20	8.95	35.15	31.57	19.96	0.47	1.00	3.394	56.39	(21.24)				
5	4,000	26.20	11.94	38.14	31.57	19.96	0.47	1.00	4.526	57.52	(19.39)				
6	5,000	26.20	15.77	41.97	31.57	19.96	0.47	1.00	5.657	58.66	(16.69)				
7	6,000	26.20	19.60	45.80	31.57	19.96	0.47	1.00	6.789	59.79	(13.98)				
8	7,000	26.20	23.44	49.64	31.57	19.96	0.47	1.00	7.920	60.92	(11.28)				
9	8,000	26.20	27.27	53.47	31.57	19.96	0.47	1.00	9.051	62.05	(8.58)				
10	9,000	26.20	31.11	57.31	31.57	19.96	0.47	1.00	10.183	63.18	(5.88)				
11	10,000	26.20	35.56	61.76	31.57	19.96	0.47	1.00	11.314	64.31	(2.55)				
12	12,000	26.20	44.47	70.67	31.57	19.96	0.47	1.00	13.577	66.58	4.09				
13	14,000	26.20	53.38	79.58	31.57	19.96	0.47	1.00	15.840	68.84	10.74				
14	16,000	26.20	62.28	88.48	31.57	19.96	0.47	1.00	18.103	71.10	17.38				
15	18,000	26.20	71.19	97.39	31.57	19.96	0.47	1.00	20.366	73.36	24.03				
16	20,000	26.20	80.10	106.30	31.57	19.96	0.47	1.00	22.628	75.63	30.67				
17	25,000	26.20	102.37	128.57	31.57	19.96	0.47	1.00	28.286	81.28	47.29				
18	30,000	26.20	124.64	150.84	31.57	19.96	0.47	1.00	33.943	86.94	63.90				
19	35,000	26.20	146.91	173.11	31.57	19.96	0.47	1.00	39.600	92.60	80.51				
20	40,000	26.20	169.18	195.38	31.57	19.96	0.47	1.00	45.257	98.26	97.12				
21	45,000	26.20	191.45	217.65	31.57	19.96	0.47	1.00	50.914	103.91	113.74				
22	50,000	26.20	213.72	239.92	31.57	19.96	0.47	1.00	56.571	109.57	130.35				
23	60,000	26.20	258.26	284.46	31.57	19.96	0.47	1.00	67.885	120.88	163.58				
24	70,000	26.20	302.80	329.00	31.57	19.96	0.47	1.00	79.200	132.20	196.80				
25	80,000	26.20	347.34	373.54	31.57	19.96	0.47	1.00	90.514	143.51	230.03				
26	90,000	26.20	391.88	418.08	31.57	19.96	0.47	1.00	101.828	154.83	263.25				
27	100,000	26.20	436.42	462.62	31.57	19.96	0.47	1.00	113.142	166.14	296.48				

Column Number-->